

DOCKET SECTION

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
)
COMPLAINT OF TIME WARNER, INC.,)
ET AL., CONCERNING PERIODICAL) Docket No. C2004-1
RATES)

VOLUME 5

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2004 NOV 18 P 1:47
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Date: November 17, 2004
Place: Washington, D.C.
Pages: 1417 through 1659

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POSTAL RATE COMMISSION

In the Matter of:)
)
 COMPLAINT OF TIME WARNER, INC.,)
 ET AL., CONCERNING PERIODICAL) Docket No. C2004-1
 RATES)

Room 300
 Postal Rate Commission
 1333 H Street, N.W.
 Washington, D.C.

Volume 5
 Wednesday, November 17, 2004

The above-entitled matter came on for hearing
 pursuant to notice, at 9:37 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
 HON. DANA B. COVINGTON, VICE-CHAIRMAN
 HON. RUTH Y. GOLDWAY, COMMISSIONER
 HON. TONY HAMMOND, COMMISSIONER

APPEARANCES:

On behalf of the United States Postal Service:

DAVID H. RUBIN, Esquire
 United States Postal Service
 Law Department - International and Ratemaking Law
 475 L'Enfant Plaza, S.W.
 Washington, D.C. 20260-1137
 (202) 268-2986

APPEARANCES: (cont'd.)

On behalf of Time Warner Inc., et al.:

TIMOTHY L. KEEGAN, Esquire
Burzio & McLaughlin
1054 - 31st Street, N.W., Suite 540
Washington, D.C. 20007

On behalf of American Business Media:

DAVID R. STRAUS, Esquire
Thompson Coburn, LLP
1909 K Street, N.W., Suite 600
Washington, D.C. 20006-1167
(202) 585-6900

On behalf of McGraw Hill Companies:

TIMOTHY W. BERGIN, Esquire
Hall, Estill, PC
North Building
1120 - 20th Street, N.W., Suite 700
Washington, D.C. 20036-3406
(202) 973-1224

On behalf of National Newspaper Association:

TANDA RUSH

C O N T E N T S

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
James O'Brien	1422	1446 1492	--	--	--
Halstein Stralberg	1535	1582	1653	--	--

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected surrebuttal testimony of James O'Brien on behalf of Time Warner Inc., TW et al.-RT-1	1423
Corrected surrebuttal testimony of Halstein Stralberg on behalf of Time Warner Inc., TW et al.-RT-2	1536

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected surrebuttal testimony of James O'Brien on behalf of Time Warner, et al., TW ET AL.-RT-1	1423	1423
Corrected surrebuttal testimony of Halstein Stralberg on behalf of Time Warner Inc., TW et al.-RT-2	1536	1536

P R O C E E D I N G S

(9:37 a.m.)

1
2
3 CHAIRMAN OMAS: Good morning. This is a
4 hearing in Docket No. C2004-1 considering the
5 complaint concerning periodical rates filed by Time
6 Warner, Inc.; Conde Nast Publications, a division of
7 Advance Magazine Publishers, Inc.; Newsweek, Inc.; The
8 Reader's Digest Association, Inc.; and the TV Guide
9 Magazine Group. This morning, we are scheduled to
10 hear surrebuttal testimony of Time Warner, et al.,
11 Witnesses O'Brien and Stralberg.

12 Does anyone have any procedural matters to
13 discuss before we begin? Mr. Keegan, would you call
14 your first witness, please?

15 MR. KEEGAN: Thank you, Mr. Chairman. Time
16 Warner, Inc., et al., calls James O'Brien.

17 CHAIRMAN OMAS: Mr. O'Brien, would you
18 please stand and raise your right hand?

19 Whereupon,

20 JAMES O'BRIEN

21 having been duly sworn, was called as a
22 witness and was examined and testified as follows:

23 CHAIRMAN OMAS: Thank you. Please be
24 seated.

25 //

1 DIRECT EXAMINATION

2 BY MR. KEEGAN:

3 Q Mr. O'Brien, do you have with you at the
4 desk two copies of a document that is captioned
5 "Surrebuttal Testimony of James O'Brien" and marked
6 for identification as TW ET AL.-RT-1?

7 A I do.

8 Q Is that your testimony in this proceeding?

9 A It is.

10 Q Was it prepared by you under your direction?

11 A Yes, it was.

12 Q And would your testimony be the same if you
13 were giving it orally today?

14 A It would.

15 Q Do you have any corrections or changes to
16 make in it?

17 A I do have two minor corrections. They were
18 typos. Two words were left out in the translation.
19 On page 19, line 23, the line begins "decrease sacks."
20 There should be a word "increase bundle size,"
21 "increase" should be inserted, and the word "reduce"
22 should be "and reduce pallet weight" should be
23 inserted.

24 MR. KEEGAN: Mr. Chairman, those changes
25 have been made in the record copies, and I will hand

1 you copies of TRW ET AL.-RT-1 to the reporter, and I
2 move they be received into evidence and transcribed
3 into the record.

4 CHAIRMAN OMAS: Is there any objection?

5 (No response.)

6 CHAIRMAN OMAS: Hearing none, I will direct
7 counsel to provide the reporter with two copies of the
8 corrected surrebuttal testimony of James O'Brien.
9 That testimony is received and will be transcribed
10 into evidence.

11 (The document, previously
12 identified as Exhibit No. TW
13 ET AL.-RT-1, was received in
14 evidence.)

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TW et al.-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

SURREBUTTAL TESTIMONY OF
JAMES O'BRIEN
ON BEHALF OF
TIME WARNER INC.,
CONDÉ NAST PUBLICATIONS, A DIVISION
OF ADVANCE MAGAZINE PUBLISHERS INC.,
NEWSWEEK, INC.,
THE READER'S DIGEST ASSOCIATION, INC.
AND
TV GUIDE MAGAZINE GROUP, INC.

November 8, 2004

1 AUTOBIOGRAPHICAL SKETCH

2 My name is James O'Brien. I am the Vice President of Distribution & Postal
3 Affairs for Time Incorporated, a division of Time Warner Inc. I am the former
4 Chairman of the Magazine Publishers of America (MPA) Postal Committee and
5 former Chairman of the Association for Postal Commerce (Postcom). I currently
6 serve on the board of directors of Postcom and the Mailers Council. I am a member
7 of the Periodicals Operations Advisory Committee (POAC), MPA Postal Committee,
8 MPA Government Affairs Committee and the Mailing Industry Task Force. In 2004 I
9 testified before the President's Commission on the United States Postal Service. I
10 was a member of the Periodicals Operations Review Team that focused on the
11 cause of rapidly rising Periodicals class costs in 1998. As a result of my work on the
12 Review Team, I was a witness before the Postal Rate Commission in the Docket
13 No. R2000-1 proceeding. I was the CEO of Publishers Express, an alternative
14 delivery company that competed with the Postal Service. I have been employed by
15 Time Incorporated for the past 26 years in a variety of positions related to the
16 manufacturing and distribution of magazines. Prior to joining Time Incorporated, I
17 worked for four years in the Production Department of U.S. News & World Report. I
18 also worked at R.R. Donnelley & Sons Company in the pressrooms and binderies
19 while in college.

20 My educational background includes a Bachelor of Science degree from the
21 University of Illinois, and I am a graduate of the Program for Management
22 Development at the Harvard Business School.

23

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to rebut the testimony presented by American
3 Business Media, McGraw Hill, and the National Newspaper Association by reviewing
4 the genesis and purpose of this complaint proceeding and by providing the
5 Commission with examples of opportunities for changes in mailer behavior that
6 these parties claim do not exist. These examples will show that:

- 8 1. Mailers are far more capable of changing their mailing practices than
9 they would have the Commission believe.
- 10 2. There has been and still is more than adequate time to change mailing
11 behavior prior to a 2006 rate increase.
- 12 3. The printing industry is actively developing the capability to help
13 smaller publishers to improve their mailing practices, and more change
14 can be expected if the proposed rate structure is recommended.
- 15 4. Witness Cavnar has presented a misleading view of the publishing
16 industry.

17 II. BASIS AND GENESIS OF THE TIME WARNER INC. ET AL. COMPLAINT

18 The five complainants initiated this proceeding in order to propose
19 "fundamental reform of the Periodicals rate structure to achieve greater conformity
20 with the ratemaking provisions of the Act."¹ We pointed out that the Postal Service
21 "has long believed that changes in rate design are also needed in order to address
22 the inefficiencies of the Periodicals class," that the Commission "has agreed with
23 mailers that important questions surrounding Periodicals mail processing operations
24 and the attribution and distribution of costs to Periodicals are unresolved and have
25 remained so for too long," and that the Commission "possess[es] the authority to
26 remedy deficiencies in the Periodicals rate structure that prevent mailers from taking

¹ Complaint of Time Warner Inc. Et Al. Concerning Periodicals Rates, filed January 12, 2004 ("Complaint"), at 4.

1 steps to help themselves, steps that would reduce the costs and increase the
2 efficiency of the Periodicals subclass overall." *Id.* at 5.

3 In particular, we identified a lack of congruity between the elements of the
4 Periodicals rate structure and the actual cost-causing characteristics of Periodicals
5 mail that has become increasingly troubling, and increasingly well understood,
6 during nearly three decades of study and analysis since it was first identified.² We
7 asserted:

8 Because they are substantially inconsistent with cost incurrence as now
9 understood, the signals sent to mailers in Periodicals rates are significantly
10 inefficient, so much so that they impair the value of Periodicals mail service
11 by raising costs and failing to recognize the mail's preparation, neither of
12 which results is contemplated by the Act. Improvements in cost analysis in
13 the past decade, along with advances in mechanization, have shown that
14 costs are determined in meaningful and systematic ways by the makeup of
15 bundles, sacks, and pallets and associated interactions, including entry
16 points. . . . More than half of Periodicals mail processing costs in today's
17 environment are incurred handling the bundles, sacks, and pallets in which
18 mail is entered. Yet the rates provide little information concerning what these
19 costs might be, and, accordingly, there is no way that mailers can make
20 efficient decisions.

21 Complaint at 6.

22 We stated our intention to "present evidence that pertinent improvements in rate
23 elements would bring about efficient changes on the part of mailers and would bring
24 rates into closer conformity with the Act." *Id.* More particularly, we alleged that
25 "there exists a widespread practice among Periodicals mailers, large and small, of
26 sending 'skin sacks' containing only one or two pieces" and that "such sacks would
27 become rare if their rates reflected the associated cost incurrence." *Id.* at 7.

28 The genesis of the decision to take the extraordinary measure of filing a
29 complaint with the Commission is to be found in a history that is by now generally

² See, e.g., PRC Op. R77-1 (May 12, 1978) at 349 ("As we have noted in prior rate decisions . . . the poundage rates for regular rate matter as a whole cannot reflect actual cost differences as long as the editorial rate remains flat. The Service and OOC correctly observe that the uniform editorial rate perpetuates an internal subsidy: editorial matter mailed a short distance is charged more than its true costs, and matter sent to the distant zones receives a 'free ride'").

1 well known. Although, as previously noted, dissatisfaction with the second-class
2 rate structure's failure to reflect costs dates back to the earliest Commission
3 proceedings, the distinctive "Periodicals cost problem" that has generated a growing
4 sense of urgency (and a subclass cost coverage approaching zero) first came to
5 light in Docket No. R90-1. In that case, as recounted in the Complaint (at 14),
6 "documentation accompanying the Postal Service's rate proposal revealed that
7 between FY86 and FY89 second-class regular rate (2RR) mail processing unit costs
8 increased by 41% (volume adjusted) and were \$59 million higher than they should
9 have been *based on FY86 productivity rates*, despite increased drop shipping,
10 palletization, and deployment of mechanized flat sorters that should have produced
11 \$29 million in 2RR mail processing cost reductions." The industry, the Postal
12 Service and the Commission all devoted extensive attention to the problem, but
13 Periodicals costs nevertheless continued to increase in excess of the CPI and
14 Postal Service wage inflation.

15 Thus, in Docket No. R97-1, the magazine publishing industry joined together
16 "in order to focus on a single overriding issue that has an immense, continuing
17 adverse effect on all of us" and presented the Commission with a plea for attention
18 to the unresolved problem of Periodicals costs.³ The rates recommended by the
19 Commission lowered the Periodicals class markup to 101 percent, the lowest level
20 allowable under the Act.

21 Immediately after the issuance of the Docket No. R97-1 decision, American
22 Business Press (Now American Business Media), the Magazine Publishers of
23 America, and the United States Postal Service sponsored a joint industry/USPS
24 Periodicals Operations Review Team to "identify the causes of the rapid rise in

³ See Docket No. R97-1, Trial Brief of the Alliance of Nonprofit Mailers, American Business Press, the Coalition of Religious Press Associations, Dow Jones & Company, Inc., Magazine Publishers of America, the National Newspaper Association, The McGraw-Hill Companies, Inc., and Time Warner Inc. (February 10, 1998), at 4.

1 Periodicals costs over the past decade, identify opportunities to drive costs from the
2 postal system, and make recommendations for industry and the Postal Service to
3 capture these opportunities.” [Report of the Periodicals Operations Review Team,
4 March 1999, Executive Summary] The primary data gathering effort of the Team, of
5 which I was a member, was a series of visits to postal facilities in the fall of 1998.
6 During these visits, it became quite clear to me and the other members of the Team
7 that in many instances the rates charged to Periodicals class mailers bore little
8 relation to the costs incurred by the Postal Service to process and deliver the mail.

9 The Report of the Periodicals Operations Review Team, issued in March of
10 1999, identified fifteen issues that needed to be addressed. One of these was as
11 follows; “The Periodicals rate structure should be reviewed to ensure that it is
12 consistent with the overall Periodicals processing strategy and induces appropriate
13 mailer behavior.” The Report explained:

14 It is possible that the current Periodicals rate structure, which is generally
15 package-based, may encourage the use of less finely presorted pallets and
16 sacks than if the rate structure were container based. . . . As the further
17 studies called for in these recommendations are implemented, the
18 implications for rates should be examined.

19 The Report also contained the following action item: “Consider matrix
20 approach to rates to account for all cost causing characteristics.”⁴

21 Clearly, this team saw, almost six years ago, the potential benefits of a cost-
22 based rate structure. In December of 1998, I created an initial draft of a cost-based
23 rate grid with the assistance of Halstein Stralberg. This grid was shared with Postal
24 Service representatives, who acknowledged the anomalies in the current rate
25 structure and expressed interest in the concept. Since that time, I have continued to
26 advocate a more cost-based rate structure. As word spread of the rate grid and the
27 concept of cost-based rates, the idea began to gain support in the mailing

⁴ Report of the Periodicals Operations Review Team (March 1999) at 39.

1 community and became one of the focal points for the Postal Service's Product
2 Redesign effort. Unfortunately, the Postal Service never filed its long awaited
3 Product Redesign case and the burden of advancing the cause of cost-based rates
4 fell to the mailing community.
5

6 The Complainants appreciate the Commission's willingness to provide a
7 forum for the consideration of Periodicals class costs and rates. We hope that the
8 testimony we have presented in our direct case, my rebuttal testimony and that of
9 Halstein Stralberg, and the legal and policy arguments that we will be raising in
10 further pleadings will indeed result in the most complete and balanced record
11 possible for analyzing the issues we have raised, which are of fundamental
12 importance to all Periodicals class mailers.

13 ABM, McGraw-Hill and NNA, parties that expressed opposition to the granting
14 of a hearing in this case, are also opposed, not surprisingly, to the relief that we
15 have requested. They have raised three arguments: (1) that some Periodicals
16 mailers, "due to their size, their business models or other factors" (McGarvy at 13),
17 will be unable to change their mailing practices in response to the incentives of a
18 reformed rate structure; (2) that "countless" such publications will suffer severe
19 financial harm if the proposed changes are implemented (id.); and (3) that the
20 proposed elimination of the unzoned editorial rate "would undermine maintenance of
21 a broad, vibrant and diverse Periodicals class" (Schaefer at 6-7), presumably by
22 driving some of the aforementioned "countless" small publications out of business.

23 Remarkably, the witnesses testifying for these parties have not demonstrated
24 that a single publication, either of their own or among the "countless small and
25 under-represented publications" that they claim (on what basis they do not say) to
26 represent, and whose identities they are unable to specify, would suffer the
27 consequences they predict. They do not identify a single publication that would

1 disappear, or a single subscriber who would be cut off, if the proposed changes
2 were implemented. All they are able to offer in support of their contentions are
3 anecdotes, bald assertions, and pleas for sympathy.

4 In the absence of a rate structure that requires mailers to bear the costs that
5 they impose on the system, it is understandable that mailers who benefit from the
6 current system of cost averaging and inefficient mail preparation will continue to
7 cling to it. Beneficiaries of the status quo always claim that very little change is
8 possible. We continue to believe, however, that if presented with a rate structure
9 that provides clear, accurate pricing signals, publishers, printers, fulfillment houses,
10 and logistics companies will find that there are ways for them to create more
11 efficient mail and help to control Periodicals class costs. My rebuttal testimony and
12 Mr. Stralberg's, moreover, provide extensive examples demonstrating that this is so.

13 I am confident that when it examines the record in this proceeding, the
14 Commission will find that our opponents have failed to substantiate their claims
15 about what is *not* possible and that we *have* substantiated our claims about what *is*
16 possible through a thorough, comprehensive presentation of specific facts and solid
17 analysis.
18

1 III. OPPORTUNITIES FOR CHANGES IN MAILER BEHAVIOR

- 2 1. Mailers are far more capable of changing their mailing practices than
3 they would have the Commission believe
-

4 Prior to printing any magazines, publishers prepare their subscriber files to
5 meet the Postal Service's rules and regulations for presort. To accomplish this
6 preparation, publishers generally use outside sources, such as fulfillment houses or
7 printers, or commercially available software, such as that produced by Group One
8 software, a division of Pitney Bowes. But the smallest publications may rely on
9 manual sorting by individuals. Whether using a large fulfillment house such as CDS
10 or sorting magazines on a kitchen table, everyone needs to make some decisions
11 prior to the sort. One of the most basic decisions is the minimum number of copies
12 to allow in a sack. A very low minimum will generate more sacks than a higher
13 minimum. For fulfillment houses and software vendors, changing this minimum is a
14 straightforward process that involves entering a new parameter into the presort
15 program. This can be as simple as changing a number in the presort parameter
16 field from six to 24 pieces per sack. I have actually performed this change for
17 *Cottage Living* magazine, and it took me a total of 21 seconds. The system that
18 was used in making this parameter change was based on Group One software and
19 it is available to the general public. I have also verified with other fulfillment houses
20 and software manufacturers that changing the package parameter is an easy
21 change. A person doing a manual sort on his kitchen table would take even less
22 time to make this change because he need only say to himself that he will not make
23 any sacks with fewer than 24 copies. Certainly, a change that takes 21 seconds or
24 less cannot be a burden to the industry. Witness Stralberg will provide evidence on
25 the significant benefits that smaller publishers can achieve by making this simple
26 change.

1 Mailers also need to analyze their mail preparation to determine if operational
2 or business changes need to be made. A good example of this is an effort that
3 Time Incorporated is currently pursuing with *Time for Kids* in anticipation of more
4 cost-based rates. Today, *Time for Kids* mails firm bundles of magazines to
5 individual classrooms throughout the United States. Each bundle contains a
6 magazine for every student in the class and a teacher's guide. Under the current
7 rate structure, these copies pay the firm bundle rate, which means the rate charged
8 for each bundle represents one piece of Periodicals Class mail. These bundles are
9 processed by the Postal Service on Small Parcel and Bundle Sorters or sack sorters
10 and travel through the entire Postal system intact. The bundles are delivered
11 unbroken to the school and distributed unbroken to individual classrooms within the
12 school.

13 What does not appear to make sense under the current rate structure is the
14 fact that *Time for Kids* pays a piece rate for mail that clearly is processed as a
15 bundle. The *Time for Kids* bundles are never processed on an AFSM 100 or piece
16 sorting operation, yet they are priced as if they were single pieces.

17 Under the proposed rates, the postage bill of *Time for Kids* is projected to
18 increase by 27%. Tr. 1/116. This increase is the result of the fact that the proposed
19 rates reflect the cost of firm bundles being processed as bundles rather than pieces.
20 I recently met with the Publisher, Editor, and Consumer Marketing Director of *Time*
21 *for Kids* to discuss the situation and to brainstorm ideas on how we could reduce the
22 impact of the proposed rates. When presented with the facts, the *Time for Kids* staff
23 immediately began to develop suggestions for changing their mailing behavior.
24 They determined that one of the primary factors driving the increase for *Time for*
25 *Kids* is the fact that they presently ship individual bundles to approximately 150,000
26 classrooms, which are delivered to only 36,000 schools. They quickly determined
27 that if they could find a way to ship a single bundle to each school, they would be

1 able to reduce their bundles by 114,000 each week throughout the school year. As
2 a result, the Postal Service would be required to process 2,964,000 fewer bundles
3 during the 26 weeks of the school year.⁵ In addition, under the proposed rates, the
4 bundles that the Postal Service processes would pay a rate that more accurately
5 reflects the true cost of mail processing rather than the unrealistically low firm
6 bundle rate.

7 As a result of our discussion, *Time for Kids* is now exploring ways to modify
8 its postal sortation and binding to accommodate one bundle per school. If the
9 proposed rate structure is approved by the Commission, *Time for Kids* will definitely
10 change its preparation. In addition, because this issue was brought to its attention
11 well in advance of 2006, it will have ample time to test its ideas prior to making any
12 changes. This would not have taken place in the absence of the complaint case.
13 *Time for Kids* enjoys an unrealistically low rate under the current rate structure and
14 has no reason to change its mailing behavior unless it is required to pay for the
15 Postal Service resources that it consumes.

16 This logic should also apply to business publications that use firm bundles to
17 ship multiple copies to a single business address. If copies are processed as
18 bundles, they should be charged as bundles.

19 Time Incorporated will evaluate the mailing practices of all its publications
20 pending the approval and implementation of a more cost-based Periodicals class
21 rate structure.
22

⁵ It is instructive to compare the nearly 3 million bundles that would be eliminated each year by *Time for Kids* alone under the proposed rates with the 1.7 million sacks that have been eliminated through September of this year by the Periodicals Co-Palletization experiment that was implemented in April of 2003. See *PostCom Bulletin* (October 29, 2004) at 7.

1 2. There has been and still is more than adequate time to change
2 mailing behavior prior to a 2006 rate increase

3 Transworld, a division of Time Incorporated, has several small magazines
4 that would see an increase in their postage if the proposed rate structure were
5 approved and, most importantly, if they failed to change their mailing practices.
6 *Motocross* has a circulation of 43,896 copies per issue and would experience a
7 12.45% increase. *BMX* has a circulation of 18,336 copies per issue and would
8 experience a 5.19% increase.⁶ *Skateboarding* has a circulation of 70,121 copies
9 per issue and would experience a 3.98% increase. *Snowboarding* has a circulation
10 of 83,537 copies per issue and would experience a 6.65% increase. *Ride BMX* has
11 a circulation of 21,855 copies per issue and would experience a 6.17% increase.
12 Just as witness Schaefer says he requires of his publications, Time Incorporated
13 requires that each title stand on its own in terms of profitability. MH-T-1 at 6. We
14 are therefore working with our suppliers to develop a plan to change the mailing
15 behavior of these titles. Given their small circulation, all of these titles would benefit
16 significantly from co-mailing. We are specifically focusing upon co-mailing for these
17 titles and not co-palletization, because co-palletization fails to improve the presort
18 level of the existing bundles. In addition, as witness Schick stated, co-mailing
19 improves the presort level and palletization, and enables the mail to participate in a
20 drop shipping program. Tr. 2/348. It does not surprise me that Witness Cavnar's
21 co-palletization efforts only yield a 1% savings, since co-palletization fails to improve
22 presort. ABM-T-1 at 3. I suggest that he explore co-mailing as we are doing with
23 our smaller circulation Transworld titles.

⁶ The figures for *Motocross*, *BMX*, *Skateboarding*, *Snowboarding*, and *Ride BMX* appear at Tr. 1/117. *BMX* will cease publication after its January, 2005 issue. This decision had nothing to do with postage, since rates have been stable since 2002.

1 In developing a solution for these Transworld titles, our experience has been
2 the exact opposite of what has been stated by the ABM and McGraw Hill witnesses.
3 These witnesses claim that contractual obligations and a lack of co-mailing or drop
4 shipping capacity at their current printers preclude them from becoming more
5 efficient. As the following example indicates, this is not the case. The Transworld
6 titles are printed at Brown Printing, which does not have its own co-mail program at
7 this point.⁷ In addition, these titles have a multi-year agreement that does not expire
8 until June, 2006. Transworld could easily make the assertions that our opponents
9 make by saying that its printer doesn't have the capability to co-mail and it is locked
10 into a contract. But while it is true that Brown Printing doesn't have the ability to co-
11 mail, other printers do and are willing to accept product from competing printing
12 companies. Quebecor World Logistics recently announced an expansion of its co-
13 mailing capabilities and its willingness to accept product from other printers. On
14 August 2, 2004 it issued a press release announcing a "short-run co-mail platform to
15 cut costs and improve service for magazine publishers." Jennifer Lukasiak,
16 Quebecor World Logistics Marketing & Business Manager, stated: "We will look to
17 include publishers who print at Quebecor in the program first; then extend it to
18 others." On August 31, 2004, I met with Brad Nathan, President of Quebecor World
19 Logistics to discuss their new program and to verify that, in fact, they would be
20 willing to accept our Transworld titles in their co-mail pool even though they were
21 printed at Brown. He indicated that Quebecor World would indeed accept the
22 Transworld products. Efforts like Quebecor's should be applauded and emulated
23 throughout the printing industry.

⁷ Brown Printing announced that it will begin offering a co-palletization and pool shipping program through Fairrington Transportation. Neither company has announced a co-mailing program at this time.

1 Having addressed the issue of co-mail capacity, let me turn to contractual
2 issues. In a prior position, I was Time Incorporated's Director of Field Operations
3 and was responsible for all of the printing plants that produced Time Inc. products
4 throughout the United States. In that capacity, I became intimately involved in all of
5 the printing contracts. In my 30 plus years in the publishing industry, I have never
6 seen a printing contract stipulating that the publisher must distribute its publications
7 through the printer's network. The Transworld contract with Brown contains very
8 detailed information about the pre-press, printing, and binding of the magazine, but
9 when it comes to distribution, there are no specific clauses that indicate that the
10 publisher must distribute its periodicals through the printer's transportation network.
11 In fact, our generic printing contract contains the following "boilerplate" language:
12 "Printer shall prepare all copies of the Magazine for mailing or other shipment in
13 accordance with Publisher's instructions and all United States Postal laws and
14 regulations applicable to the Magazine's postal classifications." As a result,
15 Transworld can simply ship unlabeled copies to Quebecor World's co-mail operation
16 without any effect upon the contract with Brown Printing.

17 Like most publishers, we try to maintain an excellent relationship with our
18 print vendors, so I met with our Sales Representative from Brown to discuss the
19 matter. Brown was completely sympathetic with the plight of the Transworld titles
20 and agreed that they would not stand in the way of having these titles entered into
21 the Quebecor World co-mail pool.

22 There are two key points that I ask the Commission to take away from this
23 chain of events. First, the issue of contractual obligations is a red herring. Printing
24 contracts do not dictate distribution methods. Second, printers work very hard at
25 being good business partners for their customers and do not want to lose their pre-
26 press, press, and bindery work because of a distribution issue. Most printers will

1 elect to cooperate with their customers and help them to stay in business even if it
2 means allowing the product to be co-mailed and drop shipped by a competitor.

3 In terms of timing, Quebecor World indicated that they will begin their co-mail
4 program with their existing client base and expand it to outside customers in 2005.
5 If the proposed rates were approved, we could have the Transworld titles in
6 Quebecor World's co-mail pool in the third quarter of 2005, well in advance of a
7 2006 rate change. The issue of having an inadequate amount of time to prepare for
8 cost-based rates is completely unfounded.

9 The complaint was filed approximately five years after the Periodical
10 Operations Review Team's report was issued, and *any* rate implications will not take
11 effect prior to 2006, or seven years after publication of the report, which was
12 developed with input from both American Business Media and McGraw Hill. Is
13 seven years an adequate amount of time to prepare for a change in the rate
14 structure? I believe that is a more than sufficient amount of time to prepare.
15

16 3. The printing industry is actively developing the capability to help
17 smaller publishers to improve their mailing practices, and more
18 change can be expected if the proposed rate structure is
19 recommended

20 Witness Schick's direct testimony in this proceeding discussed Quad
21 Graphics' extensive co-mail and drop shipping capabilities and noted that Quad has
22 co-mailed versions of magazines with a national print order of 1,500 copies. Clearly,
23 co-mail is available at Quad to mailers of almost all sizes. In addition, Quad is
24 looking toward further improvements to its co-mail program, especially if the
25 proposed rate structure is approved.

26 The capabilities that publishers will require in a cost-based rate environment
27 are not exclusive to large printers. In fact, several small and medium sized printers
28 are developing co-mail, co-palletization, and drop shipping capabilities.

1 Publishers Press, a small, family owned printer that has been in existence
2 since 1866 has developed a very effective co-palletization pool for its small-
3 circulation publishing clients. Its co-palletization program began in 1997, out of the
4 desire to “get out of sacks.” In addition, it found that co-palletization resulted in less
5 damage to products, saved delivery time, provided the ability to track the product,
6 and saved money for their clients. In 2002, this program saved Publishers Press’
7 customers \$495,000. In 2004, the savings are estimated to be \$800,000. In its
8 advertising, Publishers Press states: “With our CPDS distribution system, 100% of
9 your magazines can be co-palletized and the majority drop shipped to maximize
10 postal savings and delivery.”⁸

11 Fry Communications is another family owned business and has been in
12 operation since 1934. Fry has developed a co-mailing operation that utilizes a state
13 of the art co-mailer purchased from Quad Graphics. Fry also uses Donnelley
14 Logistics Services to drop ship its customers’ products into the Postal Service
15 system. Fry offers the following services: ink-jetting, selective binding,
16 polywrapping, presorting, mail list processing, drop shipping, and co-mailing. On its
17 web site, Fry states: “We’ve helped our customers save millions of dollars by
18 working with them to choose the right distribution method.” From the perspective of
19 its customers, Fry is a small printer that offers the co-mailing and drop shipping
20 capabilities of Quad Graphics and R.R. Donnelley.

21 Perry Judd, a medium sized printer, announced that it would expand its
22 Strasbourg, VA publication plant by 62,000 square feet by September 2004 for co-
23 mailing and co-palletizing.⁹

⁸ m10 (July/Aug. 2004) at 27.

⁹ *Graphic Communication World* (June 7, 2004).

1 According to Mike Winn, Director of Postal Affairs, RR Donnelley currently
2 offers comailing, copalletization of periodicals, dynamic entry, and other mailing
3 services to their customers. RR Donnelley's goal is to maximize penetration into the
4 USPS distribution system and minimize postage for their customers of all types and
5 size. They also have plans in place to expand their menu of services.

6 The September 13, 2004 issue of *Business Mailers Review* contained the
7 following item:

8 Fairrington Transportation announced recently that it has completed
9 contractual negotiations with several major clients to begin providing co-
10 palletization services for their clients' Periodicals sacked mail. Fairrington
11 says co-pal pools will be run daily and the automated process has the
12 capability to process double the estimated annual volume.

13 Fairrington Transportation Corporation is an independent transportation vendor who
14 will accept product from any printer into its drop shipping pool.

15 Clearly, both small and large printers are developing the capacity to co-mail,
16 co-palletize, and drop ship in anticipation of more cost based rates. In addition,
17 small printers have several drop shipping pools available to them from companies
18 like R.R. Donnelley and Fairrington. There is no excuse for any printer to not move
19 forward in these areas.

20 In addition, I have had confidential conversations with representatives of two
21 companies that are planning to enter the co-mail business if the proposed rate
22 structure change is approved and implemented. One company is in the process of
23 securing financing and the other is seeking internal approval of its business plan.

24 Clearly, the industry is positioning itself in anticipation of a more rational rate
25 structure for Periodicals. These important developments run 180 degrees counter
26 to witness Cavnar's statement that co-palletization and co-mailing "will not be
27 available to many periodicals for a number of reasons." ABM-T-1 at 2.
28

1 4. Witness Cavnar has presented a misleading view of the publishing_
2 industry

3 Witness Cavnar states that "there will be publications that have no choice but
4 to continue mailing mail in sacks . . . because alternatives are precluded by their
5 mailing characteristics." ABM-T-1 at 5. Cavnar would like the Commission to
6 believe that some publications' mailing characteristics are completely static, which
7 they are not. Consider *Fortune* magazine, which had a trim size of 10 1/2 inches
8 wide by 13 inches long in its May 1945 issue. As postage rates increased over the
9 years, *Fortune* refused to bear the full brunt of the impact and elected instead to
10 reduce its trim size and paper basis weight several times. Today, *Fortune* measures
11 8 inches wide by 10 7/8 inches long, after having reduced its width by 2 1/2 inches
12 and length by 2 1/8 inches. In spite of the significant change in mailing
13 characteristics, 59 years later *Fortune* is still in business and the *Fortune* magazine
14 brand is as strong as ever. Contrary to Cavnar's testimony, publishers do have a
15 choice in determining their mailing characteristics. If they choose to create pieces
16 that must be manually processed, their rates should reflect the costs incurred.

17 On page 17 of his testimony, Witness Cavnar states "It ought to be clear that
18 if a publication folds due to high costs, such as high postage costs, its website(s) are
19 highly likely to disappear along with it." The July/August 2004 issue of the *m10*
20 magazine contained the story of *Microsoft Certified Professional*, a publication that
21 derives 53% of sales from e-media. In this case, it appears that the electronic
22 publication is the primary revenue driver and would succeed in the absence of the
23 print component. In addition, the August, 2004 issue of *Folio* magazine contains the
24 story of Hope magazine which was founded in 1996 and is perilously close to
25 folding. The story contains the following quote from the publisher: "Wilson,
26 naturally, is not giving up hope. He is appealing to readers to support the magazine
27 with gift subscriptions. If that doesn't get the circulation up to 80,000 in six months,

1 he'll pull the plug. Even if he does, Wilson says, he'll keep his vision alive by
2 publishing the content in another format, such as a newsletter or Website." It
3 appears that this publisher disagrees with Witness Cavnar and will continue to
4 provide content in a form other than print.

5 I also find it interesting to note that business-to-business publishers
6 emphasize how valuable print is to their business, yet they are aggressively
7 pursuing digital alternatives. The May/June 2004 issue of *m10* magazine contained
8 an article on "B-to-B Circ's New Strategy" in which several publishing executives
9 discuss their strategy. In the article, Gloria Adams of PenWell Publishing, an
10 American Business Media member, says: "an emerging circulation strategy is to
11 focus on digital copies of print magazines. 'We have anywhere from 1,000 to 8,000
12 digital editions on probably more than half of our magazines,' she says, adding that
13 the cost savings on a sub are significant... I've been surprised at the number of
14 people who say they'll take digital magazines, both domestic and international
15 readers." Yet, on page 18 of his testimony, Cavnar states that "many of our readers
16 simply will not accept the same information on a computer." It appears that ABM
17 members don't agree with Cavnar's statement and have actual data to back up their
18 strategy. From my perspective, it appears that business publishers have a strategy
19 of attempting to hold onto a favorable postage rate through the use of cost
20 averaging, while at the same time developing their exit strategy from printed
21 products. The question that this raises in my mind is: how long should we allow
22 these publications to hold veto power over the balance of the publishing industry
23 that is ready to roll up its sleeves and take action to drive costs out of the system in
24 an effort to solidify our future?

25

26

1 IV. CONCLUSION

2 The notion of rates that recognize important cost drivers and require mailers
3 to face the cost consequences of the preparation decisions they make is neither
4 new nor radical. It is based upon the simple truth that if a rational rate structure
5 exists, mailers will act appropriately and change their mailing practices to align with
6 the rates. People can become very creative when they are faced with a challenge
7 and the necessary information and opportunity. The *Time for Kids* example clearly
8 demonstrates how quickly and effectively a team can develop solutions when faced
9 with a 27% rate increase. We have seen such change in other classes of mail, and I
10 believe that Periodicals Class mailers are no different. If mailers are presented with
11 a rational rate structure that results in mailers being charged for the resources that
12 they consume within the Postal Service, they will change their mailing practices, just
13 as Time Incorporated's smaller titles are doing.

14 The barriers to change are minimal at best and declining. Printers are
15 developing co-mail, co-palletization, and drop shipping. For those printers who do
16 not have these capabilities, others currently offer these services, and more
17 alternatives are being developed in anticipation of cost-based rates. In addition, the
18 assertion that long term printing contracts preclude our opponents from taking
19 advantage of more efficient mailing practices is not credible. Printing contracts
20 pertain to the physical production of the magazine and not the distribution method
21 that a publisher must utilize.

22 One of the other mythical barriers is changing software parameters to
23 decrease sacks, ^{increase} bundle size, and ^{reduce} pallet weight. My own experience shows that this
24 hurdle is highly exaggerated. Software must change each time the Postal Service
25 changes its rates under the existing rate schedule or when they alter a preparation

1 rule. The proposed rates will cause software providers to modify their products, but
2 this is entirely normal for their industry.

3 The bottom line is that cost based rates were not designed to hurt any
4 individual publisher or group of publishers. The proposed rate structure was
5 developed with one simple goal, to design rates that reflect the costs of the
6 resources that individual publishers consume within the Postal Service. I believe
7 that our rebuttal testimony has shown that publishers will have both the means and
8 motivation to change their mailing behavior and will drive costs from the system if
9 the proposed rates are approved. I strongly encourage the Commission to approve
10 this rational rate structure and help ensure the future health of Periodicals Class
11 mail.

1 CHAIRMAN OMAS: This brings us to oral
2 cross-examination. One party has requested oral
3 cross-examination, the American Business Media. Mr.
4 Straus?

5 MR. STRAUS: Mr. Chairman, I'm concerned. I
6 hear no amplification at all in the room, and I'm
7 concerned that the reporter might not be getting --

8 CHAIRMAN OMAS: Yes, I know. Mr. Straus,
9 they are working on it as we speak.

10 MR. STRAUS: I don't want to begin cross-
11 examination if at least the reporter doesn't have it.
12 Can you hear it? The tape is picking it up? Should I
13 proceed?

14 CHAIRMAN OMAS: If you feel considerable.
15 If you would rather wait, we can wait.

16 MR. STRAUS: I'll try to talk loud. I was
17 just concerned.

18 CHAIRMAN OMAS: As long as the reporter is
19 getting it, and I think they are beginning to find it.
20 I see Mr. Meyers back there telling me that it's
21 picked up its beat, so let's try it.

22 MR. STRAUS: In the very first postal rate
23 case in 1971, a Postal Service witness was cross-
24 examined at some length, after which the reporter said
25 that the tape recorder was broken, and the witness who

1 had squirmed the first time did much better when it
2 was repeated. I didn't want to give Mr. O'Brien that
3 opportunity.

4 CHAIRMAN OMAS: Would you proceed, Mr.
5 Straus?

6 MR. STRAUS: Certainly.

7 CROSS-EXAMINATION

8 BY MR. STRAUS:

9 Q Mr. O'Brien, we've debated this case many
10 times off the record. We finally get a chance to do
11 it on the record.

12 At page 4, the top half of the page, is it
13 your point there that the processing costs for
14 periodicals mail should have been reduced as a result
15 of some of the increased drop shipping and
16 palletization of flat sorters, but, in fact, the cost
17 did not go down?

18 A Yes.

19 Q And it's your position in this case, isn't
20 it, that if mailers would only use fewer sacks, the
21 costs will go down?

22 A Yes.

23 Q You refer, at the bottom of 4 and over to 5,
24 to the periodicals operations review team.
25 Specifically, on line 6, where you refer to the "other

1 members of the team," are you referring there to all
2 other members or to some other members?

3 A Some other members.

4 Q In the quote from that report, at lines 14
5 to 18, the report states that rates as they existed
6 then, which is more or less as they exist now,
7 encourage the use of less-finely presorted sacks,
8 pallets and sacks. Do you see that?

9 A Uh-huh.

10 Q Do you read that as a statement that sacks
11 ought to be more finely presorted rather than less
12 finely presorted?

13 A I don't. I think the intention of that
14 group and that report was to indicate that there were
15 a great number of sacks in the system back then, and
16 there are today, which tend to drive up costs.

17 Q I'm focusing on the one that says, "The
18 rates may encourage the use of less-finely presorted
19 pallets and sacks," as if that's a bad thing, as if
20 pallets and sacks should be more finely presorted.

21 A I think the intention there, David, was that
22 the rates and the rules encourage the creation of skin
23 sacks, and that was a problem and still is a problem.

24 Q Are skin sacks less finely presorted?

25 A They are more finely presorted.

1 Q Let's get back to the question, then. The
2 report said that the existing rates encourage less
3 finely presorted, and you're telling me now that they
4 encourage more finely presorted. Was the report
5 wrong?

6 A I think that this sentence probably doesn't
7 reflect accurately the sentiment of that group.

8 Q If one believes that the periodicals class
9 should be broad, vibrant, and diverse, would that goal
10 be hampered only if periodicals go out of business, or
11 would that goal be hampered if a segment of the
12 publishing industry found itself in financial straits
13 such that, for example, its editorial quality was
14 compromised?

15 A I think that the goal of having a broad,
16 diverse periodicals class will continue to exist under
17 the current rates or the proposed rates, so I guess
18 I'm not really clear on the question.

19 Q In your testimony at page 6, you address a
20 statement by Witness Schaefer that certain rate
21 changes would undermine maintenance of a broad,
22 vibrant, and diverse class, and then you say,
23 "presumably by driving some of the aforementioned
24 countless small publications out of business," as if
25 driving publications out of business is the only way

1 to adversely affect the goal of broad, vibrant, and
2 diverse, and I'm suggesting to you that wouldn't it
3 also be the case that you would hinder the achievement
4 of a broad, vibrant, and diverse periodicals class if
5 a section of periodicals were not driven out of
6 business but were harmed such that their editorial
7 quality was hurt? You're assuming here -- this
8 presumably by driving them out of business, is what
9 I'm focusing on. Aren't there other ways to hurt
10 periodicals and a broad, vibrant, diverse class other
11 than simply driving them out of business?

12 A I guess, if a title is the sole source of
13 news for that particular topic, and they diminish
14 their editorial quality, I guess that does hurt the
15 vibrancy. I don't believe anything that we've stated
16 in the record proves that anyone will do that under
17 the proposed rates.

18 Q Continuing on that page and over to the next
19 page, you criticize the intervenors, some of them,
20 for not identifying a single publication that would
21 disappear if the rates were implemented.

22 A Right.

23 Q Do you recall that Time Warner asked an
24 interrogatory of Witness McGarvy very much along those
25 lines?

1 A I don't recall that interrogatory
2 specifically.

3 Q Let me read you from the answer to TW ABMT-
4 3-12. The question was, after a quote, "Please
5 confirm that your testimony does not identify or
6 demonstrate the existence of even a single mailer who
7 'would not be able to avoid large, crippling
8 increases' under the rates proposed, and if you do not
9 confirm, tell us who you identify."

10 Here is a portion of the answer: "I can
11 confirm that my testimony does not identify a single
12 mailer who would not be able to avoid large, crippling
13 rate increases under the rates proposed. This is a
14 very competitive business and a business that for the
15 past several years has not done well financially, as
16 advertising revenues dropped significantly. When
17 publications are in financial trouble, publishers tend
18 not to want to broadcast that fact since that
19 information would be useful to competitors and to
20 those who might be thinking about acquiring the
21 publication at a bargain price. That is a major
22 reason why you don't see testimony from an American
23 Business Media saying, 'My publication is in serious
24 financial trouble. We're too small. We're published
25 too frequently to be a good co-mail candidate, and the

1 proposed 45 percent rate increase would be the death
2 knell for us.'"

3 Do you disagree with anything in that
4 answer?

5 A I'm not sure if providing data that would be
6 helpful to the Commission would necessary force
7 someone to put their magazine on the block for sale,
8 so I don't agree with that statement.

9 Q Do you think that the statement said that
10 giving data would force them to sell? I suggest to
11 you, the statement said if someone is in dire
12 financial straits and leaves, that a 20 or 30 or 40
13 percent postage increase would put them under, they
14 are not about to tell anybody that because they don't
15 want anybody to know that they are in bad financial
16 straits. Do you disagree with that concept?

17 A I can't speak for other publishers what they
18 decide they do or don't want to make public. All I do
19 know is that the record doesn't state anyone that's
20 going to go out of business as a result of these
21 rates. And the other thing that it doesn't state is
22 it doesn't state that these publications that purport
23 to have 80 percent increases, what types of things
24 they could to avoid those increases, and I think our
25 record states very clearly what they can and should do

1 to avoid the increases.

2 Q Have you read anything recently about the
3 financial health of the publishing industry?

4 A All the time.

5 Q Do you happen to read B2B Media Business, an
6 e-mail newsletter?

7 A No.

8 Q Let me hand you a copy of the November 16th
9 issue. That's just yesterday. I would like to direct
10 your attention to the little article that begins with
11 just a headline at the bottom of the second page.
12 That headline says, "ABM Study Tracks Dramatic Decline
13 in Magazines' Profitability."

14 A Uh-huh.

15 Q I'll just read you a little bit of this, and
16 I'm going to ask you some questions. This article
17 says: "Hammered by the decline in traditional ad
18 revenue, B2B magazines saw their operating margin
19 plunge on average from 11 percent in 1999 to 0.6
20 percent in 2003, according to a new profitability
21 report prepared for American Business Media by the
22 Jordan, Edmiston Group, Inc. The Media Investment
23 Bank presented its findings Monday at ABM's annual
24 management meeting in Chicago. During the five-year
25 period covered by the report, the average B2B

1 magazine's ad revenue fell from \$3.4 million to \$2.8
2 million, and its EBITDA (earnings before interest,
3 taxes, depreciation, and amortization) plummeted from
4 \$505,000 to \$24,000."

5 I'm not going to ask you whether you agree
6 with any of those numbers, but if, in fact, it's true
7 that the average profit dropped to \$24,000, would you
8 discount the effect on the survival of those
9 periodicals of increased postage costs?

10 A I wouldn't discount it. I would weight it
11 equally with costs rising in other areas of their
12 business.

13 Q I think you mean revenues rising maybe.

14 A No, costs. What I mean is, if you're in the
15 publishing business today, paper prices are rising.
16 That's a fact. Paper prices were raised in October.
17 I received a notice earlier this week that our costs
18 are rising for fuel surcharges because gas prices are
19 going up. So postage isn't the sole driver of this.

20 I think there is one other thing that needs
21 to be noted here. You're talking about traditional ad
22 revenue. A lot of the trade journals that I read talk
23 about B2B publishers are increasing trade show
24 revenues and on-line revenues, so this is one stream
25 of revenue that you're talking about, not the full

1 picture.

2 Q The article goes on to address other sources
3 of revenue. I didn't mean to exclude that.

4 On page 8, you explain how easy it is to
5 change the sack minimum parameter.

6 A Yes.

7 Q What are you rebutting there?

8 A What I'm rebutting is the people that have
9 testified that have said it's too difficult to change.

10 Q Did anybody suggest that it's too difficult
11 to change sack minimums?

12 A No, that change in general is just too
13 difficult. I think I've heard a few different
14 comments -- things are too difficult to change; too
15 much too soon -- those types of arguments, and that's
16 what this is rebutting.

17 Q In the last sentence of that page, page 8 of
18 your testimony, you say that "Witness Stralberg will
19 provide evidence on the significant benefits that
20 smaller publishers can achieve by making the simple
21 change." Did he, in fact, provide evidence to that
22 effect?

23 A He did. He has shown that there are a
24 number of publications that purport to have
25 significant increases and that the vast majority of

1 those publications use six-copy sack minimums, and he
2 also showed that there is another group of
3 publications that use 24-copy sack minimums that
4 received significantly smaller or no increases.

5 Q So he compared two groups of publications.
6 He highlighted two characteristics in groups of
7 publications, those with 24-piece sack minimums and
8 those with six-piece sack minimums. But that's not
9 what your testimony says. Your testimony says that he
10 showed the benefits that publishers can make by making
11 the simple change. My question is, do you understand
12 that Mr. Stralberg submitted evidence that showed that
13 these publications with six-piece sacks could benefit
14 if, in fact, they made the simple change? In other
15 words, did he go in and change the sack parameters or
16 the sack minimums and show exactly what the effect
17 would be of what you want them to do?

18 A The answer is he couldn't, for a couple of
19 reasons. If you look to some of the objections filed
20 by ABM in terms of providing new mail.dats, you
21 objected to that. To perform the exercise that you're
22 talking about, what would have had to happen is you
23 would have had to give Mr. Stralberg the subscriber
24 label information record for every subscriber for a
25 given publication, and then we would have been able to

1 create our own mail.dats and run six-copy minimums
2 versus 24-copy minimums and told you precisely what
3 the difference would be, and we would gladly perform
4 that exercise if you would care to provide those
5 records, but I don't think you will because you
6 wouldn't even give us mail.dat, which is a level much
7 less difficult to provide.

8 Q I must be missing something. I thought Mr.
9 Stralberg's Exhibit C produces the results of more
10 than 150 mail.dat files that we did give you.

11 A You gave us mail.dats, old mail.dats. You
12 would not give us the new mail.dats.

13 Q We agreed, and you state, and everyone
14 agrees, that the several-year-old mail.dats are
15 nevertheless representative of the way publications
16 are presented today. So you had the mail.dat files.
17 You used those mail.dat files. You draw conclusions
18 from those mail.dat files. You show postage changed
19 not only at the rates you proposed but at some other
20 set of rates that you never proposed with those
21 mail.dat files, yet you never showed what would happen
22 if those mailing with fewer than 24 pieces increased
23 their sack sizes to 24 pieces.

24 A There is another level of data that would
25 have to be given to us to create those specific

1 mail.dats for individual publications. We did not
2 have that data.

3 Q Did you ask for the data?

4 A We did not because we assumed that it
5 wouldn't be given to us, given the objections to the
6 mail.dat files.

7 Q Did we object to the mail.dat files we gave
8 you? Was ABM ordered to provide those, or did we do
9 so voluntarily?

10 A You gave us the old mail.dat files
11 voluntarily.

12 Q Does it refresh your recollection to suggest
13 that somebody named Peter Moore may have developed a
14 simple program for changing sack minimums and
15 rerunning a mail.dat file with the new sack minimum?

16 A And I paid for the development of that
17 program with Peter Moore. So we asked him to create
18 that program, and to do it, you need the subscriber
19 label information records.

20 Q In your discussion of Time for Kids, you say
21 that they can reduce the number of bundles --

22 A PARTICIPANT: Is there a page number that
23 you're referring to in the testimony?

24 MR. STRAUS: Yes. Your discussion of Time
25 for Kids begins at, I believe, page 9 and goes over to

1 page 10.

2 BY MR. STRAUS:

3 Q You say that you met with their people, and
4 you quickly determined that you can eliminate 3
5 million bundles a year, in 26 weeks.

6 A Yes.

7 Q At today's rates, would you save any money
8 doing that?

9 A We haven't actually analyzed the effect
10 under the current rates.

11 Q Wouldn't you save 3 million piece charges?

12 A We would.

13 Q And would you incur any additional charges
14 somewhere else to offset those reduced --

15 A We would probably incur additional charges
16 in the bindery.

17 Q By creating larger bundles?

18 A By having to manually combine separate
19 bundles into one large bundle for each school.

20 Q So you could reduce the number of bundles by
21 3 million today, but you don't know if it would save
22 you any money.

23 A Because we haven't done the financial
24 analysis to determine the costs in the bindery versus
25 the postage savings.

1 Q When you decided you would do this if the
2 rates changed, you must have considered those things,
3 though.

4 A We did because we had the mail.dat file, and
5 we were able to run before-and-after scenarios pretty
6 easily and determined the impact on the new rates. We
7 don't have the bottom line financial implication with
8 the additional bindery charges calculated yet.

9 Q So you know what the postage cost reduction
10 would be, --

11 A Yes.

12 Q -- but you don't know what the offset would
13 be.

14 A Exactly.

15 Q How can you conclude, then, that you would
16 not have made this change in the absence of the
17 complaint case if you don't know what the offset would
18 be?

19 A We didn't even consider it before the
20 complaint case. The complaint case caused us to think
21 about this issue. It was business as usual. We were
22 just chunking along with Time for Kids, and no one
23 thought about combining individual bundles into one
24 large bundle for each school. Everyone was happy with
25 the current system. The schools like it. It's a

1 major change for the school systems to receive this
2 single bundle. So there is going to be a lot of work
3 that has to be done to make the change, but Time for
4 Kids is willing to do that.

5 Q But you have thought of it now.

6 A We have thought of it. The complaint case
7 forced us to think about it. We looked at the titles
8 that were going to receive increases for Time, Inc.,
9 and said, okay, what do we need to do to change their
10 mailing behavior so that we either reduce or eliminate
11 the impact? And that was the action plan that we came
12 up with for Time for Kids.

13 Q Let's assume that the rate design doesn't
14 change. Would you then investigate what your
15 offsetting costs would be to see whether you still
16 want to go ahead and do this?

17 A Yes.

18 Q At the bottom of page 10, you said that you
19 will evaluate all of your publications' mailing
20 practices pending the approval and implementation of
21 cost-based rates. I'm trying to figure out what you
22 mean by "pending the approval." Does this mean before
23 the approval? after the approval?

24 A If the proposed rates get approved by the
25 Postal Rate Commission and then implemented by the

1 Board of Governors, and they went into effect, then we
2 would explore the mailing practices of all of our
3 titles.

4 Q So by "pending the approval," you were
5 suggesting you would do it after the approval.

6 A We would do it not after the approval; we
7 would do it -- if the Postal Service files a rate case
8 that has basically this type of rate structure in it,
9 we would start working on those changes during that
10 10-month period that that rate case is litigated. We
11 would start making those changes prior to the
12 implementation, so pending the implementation.

13 Q On page 11, you address some of the
14 TransWorld publications, and you say you're working
15 with your suppliers to develop a plan to change the
16 way they are mailed.

17 A Yes.

18 Q Which suppliers are those?

19 A These publications are printed at Brown
20 Printing, and so we're working with Brown Printing,
21 and we're also working with Quebecor World, who just
22 announced a new co-mail operation.

23 Q I know in your testimony you address
24 printing at Brown, shipping it to Quebecor World, and
25 having Quebecor World co-mail.

1 A Yes.

2 Q Why not just have Brown co-mail?

3 A Brown doesn't have co-mail.

4 Q Why?

5 A They haven't made a decision yet. They are
6 exploring it but haven't decided.

7 Q If Brown co-mails, will you allow Brown to
8 co-mail them or still ship them to Quebecor World?

9 A I think that it would be expeditious for us
10 to have Brown do it, but I think we would have to do a
11 financial evaluation to see which vendor would provide
12 us the best result.

13 Q When did Jennifer Lukasiak tell you that
14 Quebecor World will extend its co-mail to product not
15 printed there?

16 A That was contained in a press release from
17 Quebecor World, and this was in Quebecor World
18 Logistics Solutions, and it's dated August 30, 2004.

19 MR. STRAUS: Can I see a copy of the press
20 release?

21 THE WITNESS: Sure. I have a couple of
22 press releases, David, that you may want to see.

23 (Pause.)

24 THE WITNESS: I think I left the specific
25 one that's quoted here in a folder in New York, so I

1 don't have that specific quote in this folder.

2 BY MR. STRAUS:

3 Q How much business does Time, Inc., do with
4 Quebecor World?

5 A I'm not sure. I don't know the exact
6 numbers of how much business we do with Quebecor
7 World, but they are one of our top printers.

8 Q Tens of millions of dollars?

9 A Yes.

10 Q When you spoke with Brad Nathan, did he
11 indicate to you that they would make an exception for
12 Time Warner to co-mail product printed elsewhere that
13 would not be extended to others who did not do tens of
14 millions of dollars with him?

15 A Well, it's interesting because Quebecor
16 World, the reason I found out about their availability
17 was through a press release. So they were
18 broadcasting this to the world, not to Time Warner.
19 The press release, Jennifer Lukasiak's statement, you
20 know, that we looked to include printers who printed
21 Quebecor in the program first and then extended to
22 others. So it wasn't exclusive to Time Warner.

23 Q That's a press release. You didn't answer
24 my question, though, --

25 A Okay.

1 Q -- which is, when you spoke with Brad
2 Nathan, did he indicate that this was an exception
3 that was being made for Time?

4 A No.

5 Q Do you think that Quebecor World, if
6 approached by a publisher with two periodicals that
7 does no business with Quebecor World and prints those
8 periodicals, say, at Democrat Press in Little Rock or
9 Dartmouth Press in Hanover, New Hampshire, would also
10 be allowed to ship their product to Quebecor and have
11 it co-mailed?

12 A Yes.

13 Q Have you asked Quebecor World that question?

14 A No.

15 Q I did. I wish I could testify. Roughly,
16 what portion of the postage savings due to co-mailing
17 would be consumed by (a) shipping the product to
18 Quebecor World and (b) the charges by Quebecor World
19 for the co-mailing itself?

20 A I don't think it's appropriate for me to
21 disclose Quebecor World's pricing in this environment.
22 They told me that we would have savings, but it's not
23 my place to disclose their pricing.

24 Q Have you ever heard anyone from Quebecor
25 World say that roughly they expect there to be about a

1 30 percent postage savings from co-mailing and about
2 10 percent of that going to the mailer, 20 percent for
3 the process?

4 A That's within reason.

5 Q And that assumes the product is printed
6 there. Now, if the product is printed elsewhere and
7 has to get shipped there, the 10 percent saving would
8 shrink, wouldn't it?

9 A I think that the 10 percent figure is
10 probably the right number.

11 Q Even after shipping costs?

12 A Yes, under today's rates.

13 Q How far are you going to have to ship from
14 Brown to Quebecor?

15 A These titles are printed in either Brown
16 Printing in southern Minnesota, or they are printed in
17 Woodstock, Illinois. So we're going to have to come
18 down to those locations. Both printers, both Brown
19 facilities, have shipments that come down right now.
20 So we have shipments that go through Fairington that
21 come down from Brown Printing in Wausekan, Minnesota,
22 down to the Fairington hub in Chicago. So they will
23 just drop those titles off at Quebecor World with an
24 incremental charge.

25 Q For those of us who are geographically

1 challenged, could you tell me about how far it is?

2 A How far it is? Woodstock, Illinois, to the
3 northern Chicago suburbs is probably about 25 miles.
4 The Minnesota shipment is probably a couple of hundred
5 miles.

6 Q Do you think it would make sense of someone
7 to ship from Hanover, New Hampshire, to Quebecor World
8 for co-mailing?

9 A Well, the interesting thing about Quebecor
10 World is that they have these distribution centers
11 around the country, so someone in Hanover, New
12 Hampshire, wouldn't have to ship all of the way to
13 Chicago; they would have to ship it as far as a
14 distribution center and then ride on Quebecor World's
15 transportation to the Midwest.

16 Q That wouldn't be free. They would still
17 have to pay for the shipping.

18 A Sure. Absolutely.

19 Q Do you think there would be enough savings
20 involved to do that?

21 A I do.

22 Q You state that typical printing contracts
23 cover printing and that the publisher is then free,
24 once it comes off the bindery line, to do what he
25 wants with it, and then you say that Brown Printing

1 was sympathetic and would not stand in the way of
2 having those titles go to Quebecor World. Did they
3 have any right to stand in the way?

4 A They did not, but out of a business
5 courtesy, we brought it up with them. We like to be
6 partners with our suppliers, and we don't want any
7 surprises here, so they did not object to it.

8 Q At the bottom of page 13, you state, the
9 printers want to retain the printing business and,
10 therefore, wouldn't want to stand in the way of
11 someone having some mailing services performed
12 elsewhere. What about the inverse of that? Aren't
13 there printers who offer these value-added services
14 who wouldn't want to offer them to anyone who printed
15 elsewhere because they want to get the print business
16 as well?

17 A There are printers that say that we will not
18 allow you into our co-mail pool unless you print at
19 their firm.

20 Q My recollection is that Joe Schick testified
21 that they won't handle print material from other
22 plants. Do you recall that?

23 A Yes, I do.

24 Q You stated that Frye bought a co-mailer from
25 Quad Graphics.

1 A Yes.

2 Q Are you aware that Quad Graphics has
3 subsequently refused to sell co-mailers to both
4 Quebecor World and Publishers Press?

5 A I am.

6 Q Do you know why they have refused?

7 A Because they feel that their co-mail
8 technology provides their company with a competitive
9 advantage. I guess the converse of that is that Quad
10 is not the only co-mail manufacturer in the world, and
11 there are other people ready, willing, and able to
12 sell equipment to printers of all shapes and sizes.
13 Quebecor World is not buying their co-mailers from
14 Quad; they are buying them from another supplier.

15 Q They have to because Quad said no.

16 A Right.

17 Q When is Quebecor World's co-mail program
18 going to be in operation?

19 A I believe I stated it in my testimony.

20 MR. KEEGAN: Page 14, line 3.

21 MR. STRAUS: Well, that's not exactly the
22 answer.

23 THE WITNESS: Well, as I understand it, the
24 first machine is going in in the first quarter of
25 2005, and multiple machines will be put in place, and

1 then they will open it to outside customers in the
2 third quarter.

3 BY MR. STRAUS:

4 Q Roughly, how many titles will Quebecor World
5 be able to co-mail once it's fully operational?

6 A I'm not sure.

7 Q Is it in the hundreds, in the thousands, in
8 the ten thousands?

9 A I think it's in the hundreds.

10 Q In the middle of page 14, around line 12,
11 you ask what I assume is a rhetorical question,
12 whether seven years is an adequate amount of time to
13 prepare for a change in the rate structure. You begin
14 those seven years with a report of the periodicals
15 operations review team.

16 I notice that you didn't start to prepare
17 Time for Kids until after the complaint was filed.
18 You didn't meet with Brad Nathan of Quebecor World
19 until August 31st of this year. What preparation did
20 Time Warner do over the past seven years prior to the
21 filing of the complaint?

22 A What we've done is we've tried to produce
23 our back-date copies. Last year, we entered into
24 drop-shipping programs with Quebecor World for all of
25 our nonweekly titles, so we're doing pool shipping.

1 We're evaluating our back dates. We've changed some
2 of our sack minimums. So we're making a lot of
3 changes.

4 Q At the top of page 15, you refer to
5 Publishers Press as a small, family-owned printer.

6 A Uh-huh.

7 Q How many periodicals does Publishers Press
8 print?

9 A Well, let's see.

10 MR. STRAUS: If I might approach the
11 witness. He seems to be having trouble. I'm going to
12 hand him a printout of the first page of the
13 Publishers Press Web site.

14 THE WITNESS: Thank you.

15 (Pause.)

16 THE WITNESS: 900.

17 BY MR. STRAUS:

18 Q Do you consider that to be a small printer?

19 A In terms of scale. They print a lot of
20 titles, a lot of very short-run titles, but it's one
21 plant location versus a printer like R. Donnelly that
22 has multiple plant locations.

23 Q Do you know of another printer that prints
24 even half of 900 titles?

25 A I'm not sure.

1 Q Do you know how many of the 900 titles
2 participate in the co-pallet program?

3 A Four hundred titles a month.

4 Q So the \$800,000 of savings from the co-
5 pallet program divided by 400 titles is what, \$2,000
6 per year per title?

7 A I guess so.

8 Q Do you know whether periodicals that are
9 printed and mailed by Publishers Press and co-
10 palletized and drop shipped qualify for the Postal
11 Service's co-palletized, drop-ship discount?

12 A I believe they all would. Right?

13 Q The answer is no, but --

14 A The answer is no?

15 Q As long as you asked.

16 A I don't know, so there. Is that better?

17 Q Then I suppose you don't know why they
18 haven't yet been able to convince the Postal Service
19 to provide the discount.

20 A I don't.

21 Q How many weekly publications does Publishers
22 Press co-palletize?

23 A I have no idea.

24 Q You seem to like this family-owned thing.
25 You say Publishers Press is family owned, and you say

1 Frye Communications is family owned. Is Frye a small
2 printer?

3 A I think Frye is very similar to Publishers
4 Press.

5 Q Let me read you from the Frye Web site. I
6 don't think I have a copy. "One of the largest,
7 privately owned printers in the United States."
8 That's the quote. Is the "privately owned" the key
9 there? So you think Frye is not really very big; they
10 are just big for privately owned.

11 A I do think they are big for privately owned.
12 I don't think they are big in the overall scheme of
13 printers.

14 Q Their Web site also says that they have
15 press runs up to 5 million copies.

16 A Press runs from 6,000 to 5 million, is what
17 I read.

18 Q Would you consider anyone that can run a
19 press run of 5 million copies to be small?

20 A You can have one press in a printing plant
21 and one stitcher and run 5 million copies, and it will
22 just take you all month to produce it. So you can be
23 a very small printer and run a 5 million job.

24 Q If the periodicals rate structure is not
25 changed, do you expect that Frye will try to sell the

1 co-mailer back to Quad and go out of the co-mail
2 business?

3 A I believe that they can offer their
4 customers savings today under today's rates, so I
5 doubt they will do that, but I think, under the
6 proposed rates, they would even offer greater benefits
7 to their customers, so they definitely wouldn't get
8 rid of it under the proposed rates.

9 Q Perry Judd, which increased to medium size;
10 you say that they have expanded their plant by 62,000
11 square feet --

12 A Yes.

13 Q -- for co-mailing and co-palletizing. Can
14 you tell me basically what the 62,000 square feet is
15 devoted to?

16 A Their press release in Graphics
17 Communications World, dated June 7, 2004, reads as
18 follows: "Perry Judd expands Strassburg, publication
19 plant by 62,000 square feet by September for co-
20 mailing and co-palletizing of materials from Baribou,
21 Wisconsin, and Spencer, Iowa, plants. Perry Judd
22 seeks entry-level workers for Strassburg," blah, blah,
23 blah.

24 So they are saying that the 62,000 feet is
25 designated for co-mailing and co-palletizing of

1 materials.

2 Q After this case, one of us might want to
3 apply.

4 A Both maybe.

5 Q If the periodicals rate design isn't
6 changed, do you expect that Perry Judd will use that
7 62,000 square feet for something else, a box, lacrosse
8 arena or something?

9 A I would hope that they would continue to use
10 it for co-mailing and co-palletizing.

11 Q You discuss R. Donnelly's -- you don't
12 really discuss it -- you mention at the top of page 6,
13 R. Donnelly's activities with respect to co-mailing
14 and co-palletizing. Do you have any reason to believe
15 that R. Donnelly will abandon these services if the
16 periodical rate design isn't changed?

17 A No.

18 Q Now, what about Fairington? Do you think
19 that they will back away from their co-palletizing
20 efforts that you address on page 16 if the periodical
21 rate design isn't changed?

22 A No.

23 Q I gather that if I ask you who the two
24 confidential conversations were with, you're not going
25 to tell me.

1 A That's correct.

2 Q I guess what I can't understand, although I
3 can understand that, is why, if all of their
4 competitors are doing it, they are not going to do it,
5 and aren't they going to fall by the wayside and go
6 out of business if Frye and Donnelly and Quebecor and
7 Fairington and Publishers and all of these people are
8 doing co-mailing and co-palletizing? How can these
9 people not do it?

10 A Who is "these people"?

11 Q The two people with whom you had
12 confidential conversations. Are they printers?

13 A One is and one isn't.

14 Q Let's focus on the printer. You have all of
15 these other companies, from large to small, who are
16 doing co-mailing and co-palletizing, who are going to
17 continue to do it, who can save their customers money,
18 who are causing people like you to shift product from
19 one plant to another. How can that printer be
20 resisting?

21 A They are not resisting; they are in the
22 financial-evaluation phase.

23 Q Well, you say they plan to enter the
24 business if the proposed rate structure is changed.
25 Would it also be true that they don't plan on entering

1 the business if the rate structure is not changed?

2 A They may not. They haven't said if they
3 will or will not. They are still evaluating it
4 financially.

5 Q What puzzles me is why a printer --
6 (Discussion off the record regarding
7 microphone.)

8 BY MR. STRAUS:

9 Q I forgot why I was confused. We have all of
10 these printers going into the business. We have
11 Quebecor World issuing a press release that they are
12 going into the business. You have, apparently, a
13 stack of press releases from printers saying, we're
14 going to co-mail; we're going to co-palletize. Why in
15 the world would another printer not even want their
16 name revealed that they are thinking about doing co-
17 mailing and co-palletizing? You would think they
18 would take out a billboard to make sure they retain
19 their customer loyalty and customers don't start
20 running somewhere else. Can you explain that?

21 A I would imagine that they wouldn't want to
22 bait and switch their customers if the proposed rates
23 don't go through, and they don't pull the trigger on
24 launching the co-mail system. I wouldn't announce it
25 until I knew I had it in the bag.

1 Q Did Fortune magazine change size primarily
2 to save postage costs or primarily to save paper
3 costs?

4 A Primarily, to save postage costs. Fortune
5 magazine, in 1945, -- this was Fortune magazine in
6 1945, and this is Fortune magazine today.

7 Q A shadow of its former self.

8 A A shadow of its former self in terms of trim
9 size, but we've changed the trim size over the years
10 several years several times when postage rates went
11 up. We didn't do it because paper prices went up; we
12 did it because of postage rates, and we're still in
13 business.

14 Q There are some people who still mail larger-
15 sized periodicals. Right?

16 A There are, people like Advertising Age mails
17 a large-sized periodical just about similar in size to
18 Fortune. It's interesting that this publication is
19 machinable.

20 Q Do you know why those publishers that have
21 retained the larger size have done so?

22 A I have no idea.

23 Q You're not suggesting, are you, that they
24 are just stupid and don't realize they would save
25 postage if they made it smaller?

1 A I'm not sure. They must have some reasons.

2 I am not privy to their reasons.

3 Q I would like you to take a look at the
4 bottom of page 17 of your testimony. You there refer
5 to something called Microsoft Certified Professional.
6 You reveal that it receives 53 percent of its sales --
7 I assume you mean its sales revenues -- from e-media.

8 A This was a direct quote from the magazine,
9 so it's what the magazine said.

10 Q You don't know whether the sales is
11 advertising revenues, subscription revenues, or a
12 combination.

13 A I do not. I do not.

14 Q But in any event, 53 percent of something is
15 from e-media, and you conclude, I guess, on the basis
16 of that fact alone, that it would succeed in the
17 absence of the print component. How can you be sure
18 that 53 percent of the revenue would be sufficient to
19 permit the continuation of the e-media?

20 A I didn't say it would succeed. I said it
21 appears. I'm not guaranteeing that it will succeed.
22 I'm saying it appears that it would succeed.

23 Q What do you base that on?

24 A That the majority of the revenue is coming
25 from e-media today.

1 Q If it was 49 percent, you would think it
2 assumes that it would not succeed.

3 A I have no basis of knowing their full P&L.

4 Q So you have no basis for assuming that just
5 simply because it's more than 50 percent, it would
6 succeed. Maybe it needs 90 percent.

7 A Maybe it does.

8 Q Has BMX been discontinued now?

9 A Not yet. In January of 2005.

10 Q Does BMX have a Web site?

11 A TransWorld has a Web site. I believe BMX
12 probably has one.

13 Q Is that Web site going to be maintained
14 after the publication folds?

15 A I'm not sure.

16 Q Is Ride BMX going to be folded?

17 A As I understand it, just BMX. I haven't
18 heard anything about Ride BMX.

19 Q What about Freeze?

20 A I'm not sure.

21 Q You never heard that they were planning to
22 be shut down in January.

23 A I said I'm not sure.

24 Q To some degree less than certainty, do you
25 think that there are plans in the works for shutting

1 those two magazines down in January?

2 A I don't know how many different ways I can
3 say "I'm not sure."

4 Q Well, you could say, "I have no idea," or
5 you could say, "I'm not certain." "I'm not certain,"
6 to me, means I think maybe, but I'm not certain.

7 A I don't know.

8 Q Has Time, Inc., folded any publications in
9 the past two years?

10 A We folded Mutual Funds magazine.

11 Q Is that it?

12 A I'm trying to think of what else we might
13 have folded. Mutual Funds is the one that comes to
14 mind. I'm not positive if we folded any others.

15 Q Did Mutual Funds magazine have a Web site?

16 A I'm not sure. I don't know.

17 Q At the bottom of 17 and the top of 18, you
18 refer to somebody named Wilson -- I guess that's the
19 only part of the name we have -- who is apparently
20 failing in his efforts to produce a viable, hard-copy
21 magazine, and you say that if he does pull the plug,
22 "he'll keep his vision alive by publishing the content
23 in another format such as a newsletter or Web site."
24 First of all, is that an e-newsletter or hard-copy
25 newsletter?

1 A The article didn't state whether it was "e"
2 or hard copy.

3 Q So you don't know.

4 A I don't.

5 Q So we basically have a failing publisher who
6 says that his next venture will be to try to retain
7 something in electronic format or maybe printed
8 newsletter format, and you match that against Witness
9 Cavnar's testimony as an experienced publisher. You
10 say that he disagrees with Witness Cavnar about
11 continuing to provide content other than in print.
12 Has Mr. Wilson ever actually done it, or he just says
13 he would like to do it once his first venture fails,
14 or maybe it's Ms. Wilson?

15 A It's a mister. His picture was in the
16 article, so it is a mister. I think he is saying that
17 his publication, this voice, is going to continue
18 whether or not the print publication survives, and
19 Witness Cavnar, on the other hand, is saying, if these
20 rates go into effect, we're all going to go out of
21 business, even though he hasn't proved --

22 Q Wait, wait, wait. Where did he say that, if
23 these rates go into effect, we're all going to go out
24 of business?

25 A Okay. I'm sorry. That's not a direct

1 quote.

2 Q I didn't think so.

3 A I can give you some Cavnar direct quotes.

4 Q I think you're discussing here Mr.

5 Cavnar's --

6 A On page 17 of his testimony, Witness Cavnar
7 states, "It ought to be clear that if a publication
8 folds due to high costs, such as high postage costs,
9 its Web sites are highly likely to disappear along
10 with it."

11 Q Absolutely. That's what he says: If a
12 publication folds, its Web sites will likely
13 disappear. And you contrast that, this man who works
14 for a company that has multiple publications, multiple
15 Web sites, been in the business for a long time, with
16 someone about whom we know nothing, who is apparently
17 failing in his venture to produce a publication, who
18 says he would like to keep it going.

19 A He says that if he doesn't get his
20 circulation up to 80,000, he'll pull the plug on the
21 print product, and he'll keep his vision alive by
22 publishing the content in another format.

23 Q Well, his first vision died, which was the
24 print product. Right?

25 A Right. And postal rates have been stable

1 since 2002, and his print product is dying, so the
2 proposed rates have absolutely nothing to do with his
3 going out of business.

4 Q Maybe his business planning, I'm suggesting,
5 is what's faulty, and his plan to keep it alive as a
6 Web site will be just as bad as his plan to keep it
7 alive as a hard copy.

8 A There are hundreds of publications out there
9 with similar flawed business plans that may go out of
10 business, not as a result of the proposed rates but as
11 a result of their flawed business plans.

12 Q Does Hope magazine exist today?

13 A I'm not sure.

14 Q Is there a Hope newsletter today?

15 A I don't know.

16 Q Is there a Hope Web site today?

17 A I don't know.

18 Q You didn't try to check?

19 A I didn't.

20 Q Do you know Mr. Wilson?

21 A I don't.

22 Q So you have no idea whether his forecasts or
23 statements are from someone who is knowledgeable in
24 the industry or someone who is a complete neophyte.

25 A Well, this was in Folio magazine, an ABM

1 member publication, and I trusted the content.

2 Q Because it's in print.

3 A Because it's in print, yes, one of your
4 guys.

5 Q Is at anytime Warner publications is
6 pursuing digital alternatives?

7 A We are.

8 Q Is your print business valuable?

9 A Yes.

10 Q Then why is it interesting to note, as you
11 say on page 18, that business-to-business publishers
12 emphasize how valuable their print business is if they
13 are aggressively pursuing digital alternatives?
14 You're doing the same thing.

15 A We are, but I don't think we're pursuing it
16 as aggressively as some of the B2B publishers are.

17 Q Did Time Warner buy AOL?

18 A Yes. No. AOL bought Time Warner,
19 unfortunately.

20 Q What about HBO?

21 A Yes. We own HBO.

22 Q And isn't Time Warner one of the biggest
23 broadband companies in the world?

24 A They would like to be.

25 Q Continuing on page 18, you cite an article

1 that quotes Gloria Adams of Pennwell -- by the way,
2 there's two "n's" in Pennwell --

3 A I'm sorry.

4 Q -- and, first, would you take a look at that
5 quote? The sentence begins at page 9. I got a little
6 lost trying to figure out what's her quote and what's
7 a quote by whoever it is that wrote the article
8 because you say, in the article, Gloria Adams says,
9 "an emerging circulation strategy," but that's not
10 really her saying it. Right? Her quote begins with
11 "we have anywhere"?

12 A Her quote begins with, "We have anywhere
13 from 1,000 to 8,000 digital editions."

14 Q So the author of the article said "an
15 emerging circulation strategy is to focus on digital
16 copies of print magazines," and then the quote after
17 that is Gloria Adams. Is that how you understand it?

18 A The way that the quote reads in M10 magazine
19 is -- so what I was trying to do was copy it verbatim
20 from the magazine. Her quote begins and ends with "we
21 have anywhere" and ends with "half our magazines" for
22 her, and then the article continues, "she says, adding
23 that the cost savings on a sub are significant."
24 That's the sentence. So evidently, the part that
25 begins with "she says" is the reporter reporting what

1 Gloria said.

2 Q Who is saying, "I've been surprised"?

3 A This is, "Adams says, 'I've been surprised
4 at the number of people who say they will take digital
5 magazines', both domestic and international, readers."
6 That's Gloria Adams making that quote.

7 Q So that's a quote again from her.

8 A Yes, it is.

9 Q Do you know what the circulation size is of
10 the publications that have between 1,000 and 8,000
11 digital subscribers?

12 A I do not.

13 Q Do you know how many of those are weekly?

14 A I do not.

15 Q Do you know how many of those are weekly
16 overseas subscriptions where receiving it digitally is
17 much, much faster than mailing a weekly overseas?

18 A I do not.

19 Q Do you know how many are high-tech
20 publications where readers are more accustomed to
21 receiving digital rather than hard copy?

22 A I do not.

23 Q If you don't know any of those things -- you
24 cite Ms. Adams as saying that they have from 1,000 to
25 8,000 of their unknown total subscribers doing it

1 digitally, and then you say, on line 15, "Yet on page
2 18 of his testimony, Cavnar states that many of our
3 readers simply will not accept the same information on
4 a computer." Is it inconsistent, on the one hand, to
5 say several thousand accept it on a computer and to
6 say many of our subscribers will not accept it on a
7 computer?

8 A Well, I guess I find it inconsistent that
9 Gloria Adams, another ABM member, states in an ABM
10 publication that I've been surprised at the number of
11 people who say they will take digital magazines.
12 Another ABM member says, many of our readers simply
13 will not accept the same information on a computer.
14 It seems like there is a disconnect there to me, and
15 that's what I was trying to state.

16 Q Some will and some won't. Where is the
17 disconnect?

18 A One is saying many of our readers, and the
19 other is saying that they are surprised at the number
20 of people. It just seems like they are saying two
21 different things to me. That's what I was trying to
22 convey.

23 Q Well, what are those two different things?

24 A That one is saying many won't, and another
25 one is saying surprised that many will, in essence.

1 Q Surprised that some will, anyway.

2 A Surprised at the number. I'm assuming that
3 she meant the number wasn't small. If she is
4 surprised, I think she was surprised at the number of
5 people who say they will take digital magazines.

6 Q Let's assume that all of the publications
7 with the 1,000 to 8,000 digital subscribers have a
8 50,000 circulation, and let's say that the publisher
9 thought that probably no one would want it digitally.
10 Who wants to read a magazine on a computer? We stare
11 at computers long enough. Then she finds out that
12 three or 4,000 people out of those 50,000 are actually
13 willing to accept it digitally. Wouldn't that same
14 person be able to truthfully and without inconsistency
15 say, I was surprised at how many people took it
16 digitally, but many of our people won't take it
17 digitally?

18 A That's not an impossible scenario, David,
19 but, I guess, the other thing that I find is American
20 Business Media did a business-to-business media study,
21 and in the study it talks about the times, and this is
22 dated 2001 -- it talks about, on a top-of-mind basis,
23 B2B media rank among the top sources of information
24 for executives. Number one, professional trade
25 magazines, 46 percent; number two, Internet Web sites,

1 44 percent.

2 And then it talks later on, on page 19 of
3 the study, about that the time spent reading B2B
4 magazines during the past week averages two hours and
5 15 minutes. Later on, it talks about the average for
6 executives who use business-to-business Web sites
7 report an average of over two and a half hours on
8 these sites during the past week. So it sounds to me
9 like a lot of B2B executives are spending more time on
10 Web sites than they are on the magazine. So that's
11 why I find Mr. Cavnar's statement a little bit
12 confusing.

13 Q You just think it's not true that many
14 magazine subscribers will not accept them on a
15 computer?

16 A I believe that is true.

17 Q Then why is it confusing when Mr. Cavnar
18 says it and fine when you say it?

19 A There are some that won't, but it appears to
20 me that there are many that will.

21 Q Does Time Warner offer any digital editions
22 at the moment?

23 A We do. We offer Popular Science.

24 Q And what's the total circulation of Popular
25 Science?

1 A I don't have that committed to memory.

2 Q Give me a guess.

3 A I don't know, 800,000.

4 Q And how many digital versions?

5 A Two thousand.

6 Q I'll leave it there.

7 A Maybe you should also know that I receive
8 Computer Gaming World, Computer Shopper, and PC
9 Magazine via Zenio, the same site that I receive
10 Popular Science.

11 Q You and 1,999 other people out of the
12 80,000. You probably get free copies and are trying
13 to save Time Warner postage.

14 Does Time Warner have an exit strategy from
15 the Postal Service?

16 A We do not.

17 Q But understanding that business publishers
18 do.

19 A It sure appears to me. I read a number of
20 business publications, and it appears to me that
21 business customers like me have high-speed access at
22 their work and can get trade information very, very
23 quickly via digital information. Just as you said the
24 international folks do, I'm getting reports
25 instantaneously from these business publications. So

1 I think it's going to be an easier task for them to
2 move into digital than print, but one thing you need
3 to know: We're not saying that print is dead, and
4 we're not saying that people should exit the
5 publishing business. We want to see the publishing
6 business survive.

7 Q You think that because business publishers
8 like Time, Inc., is offering digital editions, that
9 they are developing an exit strategy from printed
10 products.

11 A Well, I only know what I read because I
12 don't work for a business publisher, and what I read
13 seems to point me in that direction.

14 Q Does Fortune have an exit strategy if Time,
15 Inc., in total does not?

16 A Fortune sells no digital subs.

17 Q Fortune is a business publication, isn't it?

18 A It is. It's a publication about business.
19 It's not necessarily what you would coin a "B2B
20 publication."

21 MR. STRAUS: I have no further questions.

22 CHAIRMAN OMAS: Thank you, Mr. Straus.

23 Is there anyone else who wishes to cross-
24 examine this witness?

25 MR. BERGIN: Yes, Mr. Chairman.

1 CHAIRMAN OMAS: Mr. Bergin? Would you come
2 to the mike, please? Would you please introduce
3 yourself for the record, please?

4 MR. BERGIN: Good morning, Mr. Chairman and
5 Commissioners. My name is Tim Bergin on behalf of the
6 McGraw Hill Companies.

7 CHAIRMAN OMAS: Thank you. Proceed.

8 CROSS-EXAMINATION

9 BY MR. BERGIN:

10 Q Good morning, Mr. O'Brien.

11 A Good morning.

12 CHAIRMAN OMAS: Mr. Bergin, would you please
13 speak up a little bit?

14 MR. BERGIN: Yes, Mr. Chairman.

15 (Discussion off the record regarding
16 microphone.)

17 BY MR. BERGIN:

18 Q Mr. O'Brien, am I correct that you advocate
19 24-piece minimums for sacks as a cost-saving measure?

20 A Yes.

21 Q Would you advocate that that goal be
22 accomplished through a rule by the Postal Service?

23 A No.

24 Q Why not?

25 A Because I think if cost-based rates are

1 implemented, as we've proposed them, that people will
2 naturally make intelligent decisions about what sack
3 sizes they should have to minimize the effect of those
4 rates.

5 Q Are you suggesting that skin sacks may be
6 necessary or appropriate in some cases for some
7 publishers?

8 A They may.

9 Q What circumstances would those be?

10 A If a publisher makes a decision where they
11 feel skin sacks may benefit them, they will make that
12 decision, but nothing has ever been proven that skin
13 sacks benefit delivery.

14 Q Are you aware of other reasons for utilizing
15 low-volume sacks?

16 A I believe the majority of it is for
17 delivery.

18 Q Time Warner publications also use low-volume
19 sacks in some instances.

20 A We do.

21 Q And what is the reason for that?

22 A Service. We, like everyone else, you know,
23 in the past believed that skin sacks were good for
24 service, and as Witness McGarvy pointed out, and as
25 Mr. Straus and I and Witness Schaefer all heard in a

1 POAC meeting, Tony Dovich performed a study out in the
2 Midwest that says skin sacks may not be beneficial.
3 So I'm not sure if that theory is true in today's
4 environment, and I think it needs to be explored
5 further.

6 Q How long have Time Warner publications been
7 using skin sacks for service reasons?

8 A As long as I can remember.

9 Q And before this test in Chicago, there was
10 nothing to indicate that your belief that the use of
11 low-volume sacks improved service was unfounded.

12 A We could neither prove nor disprove.

13 Q Mr. O'Brien, are you aware of any other
14 printer besides Quebecor that is willing to accept
15 publications for co-mailing that have not been printed
16 by Quebecor, that have not been printed by the co-
17 mailer?

18 A I am not, today, aware of any other printers
19 that perform that service. However, I am aware of
20 someone who is studying their entry into the co-mail
21 industry, and they are not a printer, so they would be
22 completely independent and would accept product from a
23 variety of printers that obviously, since they are not
24 a printer, they wouldn't be competing.

25 Q Now, if I understand your testimony

1 correctly, Quebecor indicated to you that their policy
2 would be to give priority to Quebecor print customers
3 and then accommodate others wishing to co-mail at
4 Quebecor, to the extent that there was capacity to
5 handle them.

6 A Yes.

7 Q And to the extent that Quebecor's co-mailing
8 pools are fully subscribed by its own print customers,
9 then publications who do not print with Quebecor would
10 not be able to participate in those co-mail pools.

11 A That's not true. That assumes a fixed level
12 of capacity and no ability to expand. Quebecor World
13 is starting with one machine. When that fills, they
14 are going to add a second. When that fills, they plan
15 on adding a third. So I know of three machines. I
16 have no reason to believe that they would stop at
17 three machines if there was significant demand in the
18 industry.

19 Q To the extent that a publication's existing
20 printer does not offer co-mailing, as in the case of
21 Brown, and to the extent that a potential co-mailer,
22 as I understand is the case with most printers,
23 requires participants in the co-mail pool to print
24 with that co-mailer, then in order to participate in
25 co-mailing, the publication would have to switch

1 printers. Is that a fair statement?

2 A If you're not going to someone like Quebecor
3 World that will accept product from other printers,
4 that's true. If you're using Quebecor World for your
5 co-mail, it's not true.

6 Q Right. But most of the companies that you
7 mentioned involved in co-mailing do not have
8 Quebecor's policy of accepting publications that do
9 not print with the co-mailer.

10 A I don't know that. None of the press
11 releases stated whether they would or would not accept
12 product from other printers, like Perry Judd's
13 statement says nothing about that. So I have no
14 reason to believe that that's true.

15 Q Based upon, putting aside the press
16 releases, your own experience, your own conversations
17 with printers, are you aware of the policy that they
18 have to, by and large, limit their co-mailing pools to
19 those who print with the company?

20 A The only policy that I know of is the one
21 that Quad Graphics has. So I have one printer that
22 says they won't accept product from another, anyone
23 outside, and I have one printer that says they will,
24 and I have these independent companies that are
25 telling me they are going to form co-mailing pools,

1 and they will take it from anybody.

2 Q If a publication that's currently printing
3 at Brown, has a long-term contract with Brown
4 Printing, and they wish to take advantage of an
5 opportunity with Quad Graphics to participate in co-
6 mailing, then that company's contract with Brown
7 Printing would prevent it from utilizing co-mailing
8 with Quad Graphics. Is that not correct?

9 A No. The company's contract with Brown
10 Printing has nothing to do with utilizing Quad
11 Graphics. Printing contracts dictate prep, printing,
12 binding. None of the printing contracts I have ever
13 seen say anything about you must use us for
14 distribution.

15 Q Well, that's not what I'm suggesting. I'm
16 not aware that any intervenor testimony has suggested
17 that. My question is, a publisher has a long-term
18 contract with Brown Printing.

19 A Right.

20 Q The customer would like to avail itself of
21 co-mailing at Quad Graphics, which insists that it
22 print there. In that circumstance, the long-term
23 printing contract with Brown prevents the company from
24 co-mailing with Quad Graphics. Is that a fair
25 statement? It prevents the company from switching.

1 A No. Quad Graphics's policy is what prevents
2 them from co-mailing at Quad Graphics, not their
3 contract with Brown. The contract with Brown only
4 says you must use us for printing, prep, and binding.
5 If you change the printer that they wanted to go to
6 from Quad Graphics to Quebecor World, the Brown
7 Printing contract wouldn't bind them at all. So it's
8 not the Brown Printing contract that you, in your
9 scenario, describe; it's the Quad Graphics policy
10 that's preventing them.

11 Q I understand what you're saying, but on the
12 other hand, the reason that the publisher in that
13 circumstance cannot accommodate the Quad Graphics
14 policy is because it already has a long-term printing
15 contract with another printer.

16 A No. The contract has nothing to do with
17 Quad Graphics's policy. If it was someone else that
18 would take their product from another printer, they
19 could go without the Brown Printing contract. That's
20 not what determines it.

21 Q I believe you testified earlier this morning
22 in response to some of Mr. Straus's questions that
23 Time Warner could realize 10 percent net savings if it
24 co-mailed TransWorld publications that are currently
25 printed at Brown in Wisconsin. Is that a fair

1 statement?

2 A That's a good approximation under today's
3 rates.

4 Q Why is Time Warner not undertaking to co-
5 mail the TransWorld publications today?

6 A Because Brown Printing does not have that
7 capacity, and Quebecor World will not have that
8 capacity until the third quarter of 2005.

9 Q And there are no other co-mailing options
10 available to Time Warner.

11 A At this date, there are not.

12 Q I would like to focus on page 18 of your
13 testimony, please. At lines 18 and 19, you state that
14 it appears that business publishers have a strategy of
15 attempting to hold on to a favorable postage rate
16 through the use of cost averaging. Do you see that?

17 A I do.

18 Q Isn't it correct that the average postage
19 per piece paid by Complainants in this case is less
20 than 20 cents per piece?

21 A I'm not sure if I know the answer to that
22 based upon all of the Complainants' publications.

23 Q How about Time, Inc.?

24 A We have a wide variety of rates today, some
25 of which are below 20 cents --

1 Q Time magazine?

2 A Time magazine is below 20 cents. In Style
3 is more up in the range of, like, 50, 60 cents.

4 Q Fifty to 60 cents, did you say.

5 A Right.

6 Q What is the average postage per piece for
7 Time magazine?

8 A The average postage piece for Time is under
9 20 cents.

10 Q Would 17.7 cents --

11 A That's fine.

12 Q -- be close enough?

13 A Yeah.

14 Q Do you recall what TV Guide pays on average
15 postage per piece?

16 A I do not.

17 Q Less than 17 cents; does that --

18 A Subject to check, I would agree.

19 Q Isn't it true that the smaller business-to-
20 business publications that would face substantial
21 increases under the proposed rates pay much higher
22 postage per piece, on the order of 32 cents and more?

23 A I think that assumes that people will not
24 change their mailing behavior, and there is nothing on
25 the record that shows what will happen if they change

1 their mailing behavior to take advantage of the rates.

2 Q I understand your testimony in that regard.

3 What I'm trying to understand is your testimony on

4 page 18 that business publishers supposedly have a

5 strategy of attempting to hold on to a favorable

6 postage rate in opposing the proposed rate structure.

7 My question is, isn't it the fact that those business

8 publishers pay nearly double postage per piece than

9 many of the magazines of Complainants who have brought

10 this case?

11 A Those publishers benefit greatly from rate

12 averaging and cost averaging. The rates that are in

13 effect today benefit tremendously from cost averaging,

14 and my assumption here is that those publications that

15 benefit greatly from cost averaging are going to

16 attempt to hold on to that favorable rate for as long

17 as they can.

18 Q And by that, you mean resisting a widening

19 of the disparity in postage per piece from the current

20 17 cents versus 34 cents to something considerably

21 greater than that.

22 A No. It's not widening at all. It's paying

23 for what you use. So if you use a sack that incurs

24 \$3.50 worth of cost, you pay the cost of that. If you

25 elect to create skin sacks that cost the Postal

1 Service a great deal of money that people don't seem
2 to care about today because those costs are averaged,
3 once they are not averaged, people are going to find
4 that it costs them money, and then they will change
5 their mailing behavior.

6 What we're trying to establish here is this
7 incrementalism that's going on right now needs to
8 change, that if you cause people to pay for what they
9 use, they will change their mailing behavior and drive
10 costs out of the system. That's what this is all
11 about.

12 Q There are about between 25,000 and 30,000
13 publications in the periodicals outside county
14 subclass. Is that a fair statement?

15 A That's what I believe is in the ABM
16 testimony.

17 Q Also Mr. Mitchell's testimony on behalf of
18 Complainants?

19 A I don't know.

20 Q Are you familiar with the testimony by
21 Witness Tang on behalf of the Postal Service in this
22 case?

23 A I read it. I'm not intimately familiar with
24 it, but I read it.

25 Q Do you recall her testimony that

1 approximately 20,000 publications in the subclass are
2 small publications that face a substantial increase
3 under the proposed rates?

4 A That's not my testimony. I have no comment
5 on that.

6 Q Do you dispute it?

7 A I don't. I don't have any reason to affirm
8 or dispute it. It's not my testimony.

9 Q Going back to your testimony, on page 18,
10 lines 21 and 22, you posed the question, "How long
11 should we allow these publications to hold veto power
12 over the balance of the publishing industry?"

13 A Uh-huh.

14 Q Now, when you refer to "these publications"
15 supposedly holding a veto power, we're talking about
16 the 20,000 small publications that face an increase
17 under the proposed rates. Is that correct?

18 A We're talking about the publications that
19 benefit from cost averaging and don't have an
20 incentive today to change their mailing behavior.

21 Q Which is the 20,000 publications, small
22 publications, referred to by Witness Tang that would
23 face a substantial cost increase?

24 MR. KEEGAN: Mr. Chairman, excuse me. I
25 believe the witness already declined to comment on or

1 affirm that 20,000 figure. It's not something we are
2 prepared to accept.

3 CHAIRMAN OMAS: Yes. Would you --

4 MR. BERGIN: Yes, Mr. Chairman. I'm simply
5 trying to understand what the witness is referring to
6 on lines 21 and 22 of his testimony referring to
7 certain publications supposedly holding a veto power.

8 THE WITNESS: Is there a question?

9 BY MR. BERGIN:

10 Q Yes. In referring to publications
11 supposedly holding a veto power, are you referring to
12 the more or less 20,000 small publications facing an
13 increase under the proposed rates?

14 A You keep trying to tell me what I'm
15 referring to, and I keep telling you that my answer is
16 that I'm referring to the people that benefit from
17 cost averaging today and have no incentive to change
18 their mailing behavior.

19 Q When you say the publications benefitting
20 from cost averaging, are you referring to publications
21 that would face a substantial increase under the
22 proposed rates?

23 A Not necessarily. The amount of increase
24 that a publication would face under the proposed rates
25 is all determined by your mailing behavior. You can

1 change your mailing behavior. You can co-mail. You
2 can co-palletize. You can drop ship. You can use
3 selective binding. You can improve your back dates.
4 There are a lot of things that can be done. And so
5 it's not appropriate to link the impact to this
6 statement because the impact is determined by the
7 mailer.

8 Q Do you believe that all 25,000 publications
9 in the subclass will be able to undertake changes in
10 mailing practice to avoid substantial increases under
11 the proposed rates?

12 A I believe every mailer should be able to do
13 something to change the impact, every mailer.

14 Q To change the impact or to eliminate it?

15 A To change it. I can't guarantee that every
16 publication is going to eliminate that. That would be
17 ludicrous. But what I can tell you is every
18 publication has access to parameters that determine
19 the number of copies that go into a sack, and all
20 publications can explore things like co-mailing and
21 drop shipping. There is nothing to prevent them from
22 doing it.

23 Q Do you think there is sufficient co-mailing
24 capacity today to accommodate all of those
25 publications?

1 A I think it's growing and will continue to
2 grow. I don't think it's there today. I do think it
3 will be there in time for proposed rates. If
4 everything went absolutely perfectly, the rate
5 commission would recommend a decision in terms of
6 these rates, the Postal Service would incorporate that
7 into their next case, which won't get filed until
8 2005, and the rates won't go into effect until 2006.
9 I've already told you Quebecor World is adding three
10 machines in 2005. That same type of expansion could
11 take place throughout the industry in 2005, and the
12 capacity issue could be nonexistent by the time any
13 new rates went into effect sometime in 2006.

14 Q Do you think, over the course of one year,
15 there would be additional printers investing in co-
16 mailing to accommodate all 25,000 publications in the
17 periodicals class?

18 A I have no way of knowing how many printers
19 are going to do this.

20 MR. BERGIN: I think I'm near the end, Mr.
21 Chairman.

22 BY MR. BERGIN:

23 Q If additional printers did wish to get
24 involved in the near term in offering co-mailing
25 programs, where would they obtain the co-mailing

1 machines?

2 A Witness Schick talked extensively about
3 that. If you look at his testimony, you can use
4 existing SITMA machines, poly-wrapping machines, that
5 can be used as co-mailers. You can use selective
6 binding to combine two publications together on the
7 same machine so you can, in effect, co-mail, and there
8 are manufacturers, such as a company called Southern
9 Illinois Manufacturing, whom our printers have used in
10 the past to create things like bindery pockets, that
11 are selling co-mailing equipment today. Bors zan Dam
12 is selling co-mailing equipment, and SITMA will also
13 sell co-mailing equipment.

14 Q Isn't it a fact that the state-of-the-art
15 co-mailer is manufactured by Quad Graphics?

16 A One of the state-of-the-art co-mailers is
17 manufactured by Quad Graphics. Others, none the less
18 state of the art are manufactured by other people.

19 Q Is the Quad Graphics machine regarded as the
20 best co-mailer out there?

21 A I'm not a co-mailer operator. I have no
22 idea.

23 Q Is a poly-wrap machine comparable to a
24 dedicated co-mailer manufactured by Quad Graphics?

25 A I'm not a co-mail operator. I have no idea.

1 Q Is selective binding equivalent to the
2 dedicated co-mailing machine manufactured by Quad
3 Graphics?

4 A Well, that's interesting because I do have
5 some experience with that. Perry Judd Printing in
6 Waterloo, Wisconsin, used to take Boy's Life and
7 Scouting, two separate publications, and by running
8 them together on a co-mailer, they significantly
9 improved the presort. So to the extent that it's two
10 publications, they are improving their presort by a
11 factor of two, I would assume. In comparison to a co-
12 mailer, I think a co-mailer could combine up to 30
13 different publications, so a co-mailer may improve it
14 even further.

15 Q Can you co-mail more than two publications
16 through the use of selective binding?

17 A Yes.

18 Q How many more?

19 A It depends upon the number of pockets on the
20 binder.

21 Q But certainly selective binding offers
22 considerably less capacity than a dedicated co-mailer
23 in terms of being able to accommodate different
24 publications.

25 A Not true. It depends upon the number of

1 pockets on the binder. We use selective binding to
2 purchase 10,000 different versions of Time magazine,
3 so one binder, 10,000 versions.

4 Q Putting aside different versions, how about
5 different publications with substantial print runs?

6 A It depends upon the number of pockets on the
7 binder.

8 Q You're aware that Quad Graphics is not
9 offering this machine to sale for competing printers
10 who would offer co-mailing in competition with Quad
11 Graphics.

12 A I believe Mr. Straus already established
13 that fact, and I've also said that they are not the
14 only game in town.

15 Q You mentioned earlier in your testimony that
16 the TransWorld publications at Brown Printing in
17 Wisconsin could realize substantial savings through
18 co-mailing. Why aren't you co-mailing those
19 publications through the use of selective binding?

20 A Because of limitations on the number of
21 pockets available on our stitchers.

22 Q How many pockets would you need, and how
23 many do you have?

24 A I haven't performed that study.

25 MR. BERGIN: I have nothing further, Mr.

1 Chairman.

2 CHAIRMAN OMAS: Thank you, Mr. Bergin.

3 We've come to -- the bench has several
4 questions, and I think what we will do, to give Mr.
5 O'Brien a little bit of a respite, I think we'll take
6 a mid-morning break. We'll come back at eleven-
7 thirty.

8 (Whereupon, at 11:17 a.m., a brief recess
9 was taken.)

10 CHAIRMAN OMAS: As I mentioned, questions
11 from the bench, and we'll start off with Commissioner
12 Covington. I think he has several questions for the
13 witness. Commissioner Covington?

14 COMMISSIONER COVINGTON: Thank you, Mr.
15 Chairman.

16 Good morning, Mr. O'Brien.

17 THE WITNESS: Good morning, Mr. Covington.

18 COMMISSIONER COVINGTON: As the chairman
19 stated, I did have a few questions I wanted to ask you
20 along the lines of the complaint that we're
21 considering here.

22 First of all, there has been a contention
23 that smaller circulation publications have borne the
24 brunt of periodical cost increases since 1985. What's
25 your position on that, or do you have an opinion?

1 THE WITNESS: I absolutely do. When you
2 look at the proposed rates, the impact on any
3 publication has absolutely nothing to do with the size
4 of the publication. It has a lot to do with who your
5 dance partner is, and, you know, there are a lot of
6 small publications that print at Quad Graphics and are
7 going to benefit from the proposed rates. So I
8 disagree with these folks contending that they bear
9 the brunt. It just isn't true.

10 COMMISSIONER COVINGTON: Okay. Let me ask
11 you this, Mr. O'Brien. To what level can you testify
12 that your own periodical mail-processing costs have
13 risen?

14 THE WITNESS: That our own periodical mail-
15 processing costs have risen?

16 COMMISSIONER COVINGTON: Either Time Warner
17 or what you see industry-wide.

18 THE WITNESS: What I've seen is there is a
19 chart that Witness Stralberg produced for me that
20 shows since 1986 periodicals class costs as a class
21 have risen 220 percent while inflation during that
22 same period rose 160 percent, and it's my
23 understanding that that inexplicable rise above
24 inflation over that period of time is one of the
25 reasons why the Commission elected to reduce the

1 markup for periodicals class overall down to its
2 current level of one percent, was to reflect that
3 rise.

4 What we're proposing here is to give the
5 mailers the tools so that we can take our future into
6 our own hands and change our own mailing practices, do
7 more drop shipping, more co-mailing, and help to drive
8 costs out of the Postal Service's system.

9 COMMISSIONER COVINGTON: Okay. To what
10 extent has periodical mail-processing productivity
11 declined?

12 THE WITNESS: I have to tell you,
13 Commissioner, I'm not an expert on mail-processing
14 productivity. I would suggest you ask that same
15 question to Mr. Stralberg because he is.

16 COMMISSIONER COVINGTON: Okay. He can
17 expect that one.

18 All right. Mr. O'Brien, I wanted to ask you
19 -- I guess you know, since 1917, since Congress was
20 involved, I guess, back in 1917, they came up with the
21 unzoned pound rate for editorial rate, and I guess
22 that's about how long it's been in existence, and you
23 all in the industry seem to see this as one of the
24 biggest impediments that could have ever come about,
25 and I'm feeling quite sure that everybody has got a

1 bone to pick in that respect. But give me Jim
2 O'Brien's opinion of what you think the unzoned
3 editorial rate is doing to your business.

4 THE WITNESS: It has less to do with my
5 business and has more to do with the drop-shipping
6 business. Periodicals would do more drop shipping
7 under a zoned editorial rate than they are today, and
8 that would help drive costs out of the Postal
9 Service's system.

10 There are people that have high-editorial
11 publications today that don't drop ship because the
12 rates don't really give them a signal to drop ship,
13 and we would like to see them jump into the drop-
14 shipping pools, and we would like to see periodicals
15 mailers overall expand that practice.

16 COMMISSIONER COVINGTON: Okay. Back when I
17 was sworn into this job, I think you all were actively
18 out there with PORT, the Periodical Operations Review
19 Team, and you all came up with some good
20 recommendations, and through your involvement, -- I
21 know that you're still actively involved with MTAC --
22 what do you think the Postal Service has done with
23 those recommendations?

24 THE WITNESS: I think they followed up on
25 some of the recommendations pretty wholeheartedly.

1 The fact that Library Reference 332 was introduced
2 into the last case -- I'm not sure if it was the last
3 case, but the case that they introduced that library
4 reference showed that they were trying to break down
5 the various factors that cause costs in periodicals,
6 and so that was one of the activities that came out of
7 that group.

8 I don't think the Postal Service has dropped
9 the ball. There was another recommendation that
10 talked about responding on their automation plan, and
11 I think the Postal Service has been very forthright in
12 talking about their current and future automation
13 plans. So I don't think the Postal Service has
14 dropped the ball.

15 I also, not to give a commercial message
16 here, but I have to commend Jack Potter because he has
17 done an awful lot over the past few years to take
18 costs out of the system, and I think there is more
19 that can be done.

20 COMMISSIONER COVINGTON: Okay. Is there any
21 truth, Mr. O'Brien, to say that instead of a piece and
22 pound rate that Time Warner would want a separate
23 charge for bundles, sacks, and pallets?

24 THE WITNESS: Yes.

25 COMMISSIONER COVINGTON: Okay. Now,

1 earlier, I think, in the earlier portion, it was
2 stated that a skin sack contains only one to two
3 pieces.

4 THE WITNESS: It can contain one piece or
5 six pieces or a bundle. It can contain a number of
6 different things, but it can go down to as low as one
7 piece.

8 COMMISSIONER COVINGTON: Okay. And I think
9 it's been stated that one to three dollars is what is
10 required to handle a sack, depending on how far it has
11 got to travel.

12 THE WITNESS: Yeah.

13 COMMISSIONER COVINGTON: Okay. Now, that
14 could be kind of astronomical, depending on who you
15 are.

16 THE WITNESS: But see, it could be, but the
17 fact of the matter is that you can control that. We
18 have our sack minimums set by a computer program, and
19 that's how publishers do it. You go to a fulfillment
20 house, and they do this process called presort on your
21 magazine, and there are certain parameters in a
22 presort, and one of them is how low will you go on a
23 sack. And so you can set your sack minimums at six
24 copies, and the system will do exactly what you tell
25 it to do, or you can set it at 24 copies, and it will

1 do that. So it's really in the mailer's control.
2 Skin sacks are completely within the mailer's control.

3 COMMISSIONER COVINGTON: Completely within
4 the mailer's control.

5 THE WITNESS: Yes.

6 COMMISSIONER COVINGTON: All right. Tell me
7 personally, Mr. O'Brien, what have you seen happen as
8 far as machinability with the new AFSM-100's?

9 THE WITNESS: Well, we've seen a couple of
10 things. The AFSM-100's can handle a narrower range in
11 terms of trim sizes, and they specify trim size and
12 weight for those publications on that machine. We're
13 not necessarily convinced that that's at the outer
14 limit of the capabilities of that machine.

15 And I've got to tell you, Commissioner
16 Covington, this is a pretty good-sized magazine, you
17 know. This isn't small, and this is the size -- this
18 is completely within the limits of the AFSM-100. It
19 can handle it. So how much bigger do you need to be
20 to be nonmachinable? Do you need to have a magazine
21 as big as this table? This is a pretty good size.

22 COMMISSIONER COVINGTON: Okay. Now, as far
23 as your mix, are you still taking, as far as stuff
24 that's presorted, are you still taking bar coded and
25 nonbar coded and putting them in the same bundle or

1 container?

2 THE WITNESS: I'm not sure of how the system
3 is set up today to handle combining of nonbar coded
4 and bar coded. I'm not completely positive,
5 Commissioner.

6 COMMISSIONER COVINGTON: So, in other words,
7 it's your belief, Mr. O'Brien, that with the proposed
8 structure and with this complaint that we're
9 considering now, regardless of what the outcome is,
10 you feel that, depending on where the Postal Service
11 is going to go with its upcoming rate request, that
12 mom and pop and Sue and Jane and everybody should be
13 able to survive --

14 THE WITNESS: I do.

15 COMMISSIONER COVINGTON: -- with things as
16 they are now.

17 THE WITNESS: With rates as they are being
18 proposed?

19 COMMISSIONER COVINGTON: As they are being
20 proposed.

21 THE WITNESS: I think they will survive
22 under the proposed rates. I think they will change
23 their mailing behavior. I've pretty clearly
24 demonstrated some examples of how we're going to do
25 that with our smaller publications, and I think others

1 can do the same.

2 COMMISSIONER COVINGTON: When you all are at
3 MTAC -- I've never been fortunate enough to
4 participate in MTAC -- how often is the small
5 publisher -- is anybody sitting around voicing where
6 they stand or the impact that this complaint or just
7 across the board, is anybody at the table for the
8 small publisher?

9 THE WITNESS: Well, unfortunately, I'm not
10 an MTAC member. Someone on my staff does go to that.
11 Scott Lorenz attends MTAC. I can tell you the groups
12 that I am involved with. There is this Periodicals
13 Operations Activity Committee that Mr. Straus and I
14 both sit in. So Mr. Straus is in the room
15 representing the voice of his mailers at every one of
16 those meetings and does an excellent job of that.

17 COMMISSIONER COVINGTON: Okay. Well, Mr.
18 Straus, that's a credit there that you probably won't
19 get out of Jim O'Brien anytime soon.

20 THE WITNESS: David is a great guy.

21 MR. STRAUS: When we're off the record, it's
22 completely different.

23 COMMISSIONER COVINGTON: Off the record.
24 Okay. Well, thanks, Mr. O'Brien. That's all I have,
25 Mr. Chairman.

1 CHAIRMAN OMAS: Mr. O'Brien, Commissioner
2 Goldway has a question, but this is something that
3 we've discussed and was brought up. Commissioner
4 Covington just asserted to it a little bit. One of
5 the conversations was there's 22-plus million small
6 mailers, mailers who mail less than a thousand pieces,
7 whatever, whatever, 25,000 mailers. The concern is
8 that they are not represented. One of my theories is
9 that a lot of these people are represented because it
10 could be NEA people in a state that has anywhere
11 from -- you know, the State of Mississippi could have
12 300 different school systems or various NEAs. But to
13 your knowledge, do you think that most of these people
14 are represented in this debate, these mailers, rather?

15 THE WITNESS: I think that they don't have
16 an association, per se, I think, is what you're
17 getting at. I think that in terms of representing
18 their ability to make changes or not, I use an example
19 in my testimony -- actually, I don't specifically talk
20 about this, but there is a tape that the Postal
21 Service put together that talks about how to prepare
22 your mail, and it shows this guy who shows up at a
23 business mail entry unit, and he's just got a bunch of
24 magazines, and it kind of walks him through the
25 process and says, "Here is what you have to do."

1 First, you have to create all of your carrier route
2 copies." The guy sits at this little table, and he
3 counts out his carrier route copies, and then he goes
4 and he creates his five-digit copies.

5 For the really, really small guy, if you
6 show him a rate structure that says, if you create a
7 little bundle like that, you're going to pay that
8 much, but if you make them in 24 copies, you're going
9 to pay a different rate, a better rate, I think that
10 person, those really, really small people, as long as
11 we communicate clearly what these rates are all about,
12 I think they can adjust. They can adjust manually
13 because you're right. They don't have the big
14 computer systems that you're going to need to change
15 the parameters. They are going to change them
16 upstairs.

17 CHAIRMAN OMAS: And so you think the Postal
18 Service will, in its way, address these concerns of
19 the smaller mailers. Are they addressing it now?

20 THE WITNESS: How to process mail.

21 CHAIRMAN OMAS: How to process it to get the
22 benefit.

23 THE WITNESS: That, and also I think that
24 there are a number of people that do things to try to
25 communicate out to the mailing industry. In the past,

1 we've tried to reach out. Mr. Straus's members asked
2 me a couple of years ago to come out and talk about
3 how we get such good address quality at Time, Inc. So
4 I went out and gave a presentation and told them
5 exactly what we do. I think those types of things
6 will happen. There will be a lot of magazine articles
7 written. There will be a lot of discussion. There
8 will be newsletters, things that will come out that
9 will tell people how to take advantage of the rates
10 and show success stories and how people changed.

11 CHAIRMAN OMAS: Okay. Thank you. I sort of
12 agree with you, to some degree, because I think a lot
13 of the publications do have someone that sort of leads
14 them in the right direction. Commissioner Goldway?

15 COMMISSIONER GOLDWAY: We're all struggling
16 with our mandate to be fair in our pricing philosophy,
17 not just efficient. We also have to be fair. Are you
18 familiar with this chart that Witness Tang prepared
19 for us which shows that there are 929 publications
20 over 100,000; 3,816 medium between 15 and 100,000; and
21 under 15,000 circulation, there are 25,234 titles, 84
22 percent of the titles.

23 THE WITNESS: Uh-huh.

24 COMMISSIONER GOLDWAY: I would venture to
25 say, you haven't mentioned any of your small

1 publications being under 15,000. Do you have any that
2 are under 15,000?

3 THE WITNESS: Our smallest ones are
4 mentioned in here. They are around 16,000.

5 COMMISSIONER GOLDWAY: So you're not
6 representing any of those 84 percent.

7 THE WITNESS: No.

8 COMMISSIONER GOLDWAY: I would venture to
9 say that ABM is not representing very many of those
10 publications under 15,000. Am I correct in that?

11 THE WITNESS: I would assume so, yeah.

12 COMMISSIONER GOLDWAY: So we have 84 percent
13 of the periodicals publications which are not being
14 represented in this room when we discuss them.

15 THE WITNESS: Yes.

16 COMMISSIONER GOLDWAY: How do we find out
17 about those publications? Have you talked to any of
18 the people who represent publications under 15,000?

19 THE WITNESS: I haven't, but Witness
20 Stralberg has done some pretty extensive analysis of
21 some of Witness Tang's data, and I think he can shed
22 some light on that issue for you. I apologize for
23 deferring to a future witness, but I think he has much
24 better information than I do on that subject. But to
25 answer your question specifically, I haven't talked to

1 the smallest of small mailers. That hasn't happened.

2 COMMISSIONER GOLDWAY: Can't you see, even
3 in George's suggestion, that maybe in some way some of
4 these small publications have some national
5 representation if they are nonprofit, regional
6 publications, --

7 THE WITNESS: Right.

8 COMMISSIONER GOLDWAY: -- that most of their
9 content is going to be editorial?

10 THE WITNESS: Yes.

11 COMMISSIONER GOLDWAY: And that means that
12 in a zoned rate they are going to get a higher
13 percentage of rate increase because most of their
14 content is editorial, and whatever savings they might
15 or might not be able to garner from cost-efficient
16 pricing, and there is a debate about whether small
17 publications over 15,000 can do that, can't you see
18 that their rates are going to go up disproportionately
19 to others because of that? There may not be very many
20 of them in the system, but they are going to suffer a
21 real serious rate increase.

22 THE WITNESS: Commissioner, the example that
23 you just laid out of a small, highly editorial,
24 regional or local publication --

25 COMMISSIONER GOLDWAY: Not local, regional.

1 THE WITNESS: -- regional publication --

2 COMMISSIONER GOLDWAY: Local, I understand.

3 They are not going to have a large increase because
4 they won't have a zoned editorial rate.

5 THE WITNESS: Exactly.

6 COMMISSIONER GOLDWAY: Regional, however,
7 would.

8 THE WITNESS: I still think that regional
9 publications would benefit. Because of the fact that
10 they are regional, their distribution is compressed
11 into a regional area, so you're not going to far
12 distant zones. So even they would probably benefit.

13 COMMISSIONER GOLDWAY: Their rates will go
14 up, though.

15 THE WITNESS: I'm not sure.

16 COMMISSIONER GOLDWAY: Their editorial rates
17 will go up if they go beyond their individual zone to
18 a second zone.

19 THE WITNESS: But if they are regional, they
20 will probably be within Zones 1 and 2. Those are
21 pretty extensive zones. I believe they are 150 miles.
22 I guess I was thinking regional.

23 COMMISSIONER GOLDWAY: All right. Here's my
24 other --

25 THE WITNESS: Okay.

1 COMMISSIONER GOLDWAY: Are you familiar with
2 this Form 3541?

3 THE WITNESS: 3541? Yes.

4 COMMISSIONER GOLDWAY: Do you think it would
5 be possible to get the information that we're looking
6 for by reviewing the data that's on these forms that
7 are filled out?

8 THE WITNESS: No. 3541s don't provide
9 palletization, they don't provide enough of the data
10 that you would need to run an analysis on those
11 publications. But if they provided mail.dat or a
12 spreadsheet that contains the data in a mail.dat that
13 talks about how many pallets you have, how many sacks
14 you have --

15 COMMISSIONER GOLDWAY: Well, but if they're
16 under 15,000 --

17 THE WITNESS: But they probably have -- the
18 person that brought his mail into the Postal Service
19 BMEU that I described earlier, you count that out. I
20 know how many bundles I have on my table here.

21 COMMISSIONER GOLDWAY: And that will be on a
22 mail.dat form?

23 THE WITNESS: That information is on a
24 mail.dat. Or, if you're really small, you can count
25 it out. I mean, you can say I have X number of

1 bundles of this product.

2 COMMISSIONER GOLDWAY: Does the Postal
3 Service have that information?

4 THE WITNESS: They don't require it today.
5 That's the problem. The 3541 is what they require.

6 COMMISSIONER GOLDWAY: And what information
7 could we get from the Postal Service on that? Could
8 we get what percentage of these are non-profit of the
9 25,000?

10 THE WITNESS: The 3541 will tell you how
11 many non-profit. I think the Postal Service can tell
12 you how many non-profit.

13 COMMISSIONER GOLDWAY: Could they tell us
14 how many are newspapers or what the editorial content
15 is or advertising content?

16 THE WITNESS: I'm not sure. I'm not sure.
17 Maybe -- I'm not sure about that.

18 COMMISSIONER GOLDWAY: Can we stockholder
19 the counsel for Postal Service what kind of
20 information we might be able to get so that we're able
21 to consider this question of fairness more carefully?

22 MR. RUBIN: We've already given a large
23 amount of information about these publications --

24 COMMISSIONER GOLDWAY: Not about the small
25 publications. That's what I want to focus on, these

1 25,000 publications that have under 15,000
2 circulation.

3 MR. RUBIN: I guess --

4 CHAIRMAN OMAS: Mr. Rubin, would you put
5 your mic on, please? There you go.

6 COMMISSIONER COVINGTON: Let me see if I can
7 help out Commissioner Goldway.

8 This is what she's trying to ask you,
9 Mr. Rubin. She's saying in particular can the Postal
10 Service have a witness submit or some expert over
11 there, because you all are experts, within two weeks
12 or within a reasonable timeframe a written
13 characterization of these 25,000 titles that she's
14 talking about, even if it has to be done under
15 protective conditions --

16 MR. RUBIN: I think we've provided
17 information on a sample of these publications.

18 COMMISSIONER COVINGTON: Now, did you do
19 that --

20 COMMISSIONER GOLDWAY: But it's a very
21 sample --

22 COMMISSIONER COVINGTON: It's a small
23 sample.

24 COMMISSIONER GOLDWAY: -- for 25,000
25 publications. It might work for the 900 publications

1 that are the large ones, but we're very concerned that
2 we're not getting adequate information and that's
3 really all we're focusing on now, is to be sure of the
4 fairness in our decision.

5 CHAIRMAN OMAS: Mr. Rubin, do you think that
6 we could get this information through permits?
7 Because a lot of these small mailers do have permits
8 to mail and do you think that some of the information
9 we're looking for, or a majority of it, that we could
10 get through going through the permits of the Postal
11 Service?

12 COMMISSIONER GOLDWAY: Permits and the Form
13 3541?

14 MR. RUBIN: I think we need to know
15 specifically what information it is, if it's the same
16 information, types of information, we've provided on
17 the sample but broadened or if it's some additional
18 information.

19 COMMISSIONER COVINGTON: Okay, Mr. Rubin.
20 Let me see if I clarify what my colleagues are asking
21 one more time.

22 What we're saying is that we feel quite sure
23 that you have a list of permit holders and what we're
24 saying is that we need to know either circulation wise
25 whether or not you can tell us what percentage is

1 mailed locally or into Zone 1 and 2.

2 COMMISSIONER GOLDWAY: Here are some
3 questions that we have:

4 What percentage are non-profits of these
5 small publications?

6 What percentages are mailed locally in Zones
7 1 and 2 versus nationally so that we can be assured
8 that these small ones are in fact small regional ones
9 that won't be greatly impacted by a change in
10 editorial rates?

11 What percentage have more than 10 percent
12 advertising, for instance?

13 And can you also give us some characteristic
14 of those 25,000 how many are 10,000, how many are
15 5,000, how many are 1,000?

16 Those are, I think, the complete sets of
17 questions that we would like so that we're not
18 actually looking at any individual publication, we
19 don't want to do that, but at the characteristics of
20 this class.

21 CHAIRMAN OMAS: Mr. Rubin --

22 Commissioner Goldway, if I can interrupt,
23 I think at this point we may be -- I can't see
24 Mr. Rubin, let me look over here, you've got new
25 facial hair that we haven't seen before.

1 What we would be happy to do so that we can
2 clarify any confusion, we would be happy to offer in
3 writing what we're looking for to see what possibly
4 the Postal Service could do, if that's okay with my
5 colleagues. Then we can express what we're looking
6 for and the amount of detail. You may not be able to
7 give us the exact detail that we're all looking for,
8 but to the extent possible, the detail that Mrs.
9 Goldway is looking for and that we're all looking for.
10 Do you have non-profits? Do you know what the various
11 levels are?

12 We'll put that in writing and submit that to
13 you and we would appreciate anything that you can get
14 back to us with.

15 COMMISSIONER GOLDWAY: Within two weeks.

16 CHAIRMAN OMAS: Yes. Within two weeks.

17 MR. RUBIN: I think that's a good plan.

18 CHAIRMAN OMAS: Is that okay?

19 MR. RUBIN: We can work with that.

20 CHAIRMAN OMAS: Thank you, Mr. Rubin.

21 Commissioner Goldway, I'm sorry for
22 interrupting.

23 COMMISSIONER GOLDWAY: Yes. I guess I have
24 another question for you that relates to what
25 Mr. Gould submitted. He pointed out a particular

1 article about the difficulties that American Business
2 Media members are having, but the next item below
3 that, where small publishers form buying consortium
4 and it seems to indicate that there is an attempt to
5 buy paper, et cetera, in bulk to try and reduce costs
6 for these people.

7 Is it possible that they could also somehow
8 contract with printers in a way that would share costs
9 or make it more likely that they could do co-mailings
10 if this consortium works?

11 THE WITNESS: I think that's completely
12 valid because one of the people that I've spoken with,
13 and unfortunately it's been confidential so far, has
14 talked about that type of thing, where he's going to
15 create an independent company that's not associated
16 with Quad or Donnally or Brown or Quebecor World, and
17 he'll take on all comers. So if someone is printing
18 at a very small printer, he will accept their product
19 for co-mail and drop ship. And so I think it's one of
20 those build it and they will come strategies here,
21 that if the rate structure is there, this industry is
22 going to be developed.

23 If you take a look back at first class mail,
24 when first class pre-sort was introduced years ago,
25 the pre-sort industry blossomed. All of these

1 pre-sort bureaus formed in a short period of time. My
2 vision is that the same thing will occur.

3 COMMISSIONER GOLDWAY: But we did manage
4 because of high volumes to keep the rates for
5 individual mail still quite low and there's still a
6 lot of cost averaging that goes on in first class
7 single piece mail.

8 THE WITNESS: Yes. Yes.

9 COMMISSIONER GOLDWAY: What we're concerned
10 about is in the rate structure that's being proposed.
11 There is no place for cost averaging for these very
12 small mailers, so I think I if you have other ideas as
13 to how we might get more information about these
14 really small publications, we would certainly
15 appreciate hearing from you on that, in addition to
16 the help we're going to get from the Postal Service.

17 I thank you all for that.

18 THE WITNESS: I will follow-up with my
19 colleagues. Absolutely.

20 CHAIRMAN OMAS: Thank you, Commissioner
21 Goldway. Is that it?

22 COMMISSIONER GOLDWAY: That's it. That's
23 it.

24 CHAIRMAN OMAS: Is there any additional
25 cross-examination of this witness?

1 There being none, Mr. Keegan, would you like
2 some time with your witness to review if there's a
3 need for redirect?

4 MR. KEEGAN: Thank you, Mr. Chairman, but
5 we've already decided we do not have any redirect.

6 CHAIRMAN OMAS: Thank you.

7 Mr. O'Brien, there being no redirect, that
8 completes your testimony here today. We appreciate
9 your appearance and your contribution to our record.
10 You are now excused and I see you've cleaned up your
11 desk. Thank you.

12 THE WITNESS: Thank you, Mr. Chairman.

13 CHAIRMAN OMAS: Right now, it's 12:00 noon
14 and I think it would be a good time at this point to
15 take a break.

16 Mr. Straus, do you have any idea about how
17 long you will take with the next witness?

18 MR. STRAUS: I would guess about one hour --

19 CHAIRMAN OMAS: Good.

20 MR. STRAUS: -- so that we're all in the --
21 of time.

22 CHAIRMAN OMAS: All right. We could put
23 this -- would you like to proceed or would you like to
24 take a break for lunch now or -- I'll leave it to you
25 to make the decision. I think the bench has no

1 objection to continuing, do you?

2 COMMISSIONER GOLDWAY: I don't have any
3 objection to continuing.

4 Would you prefer to continue?

5 MR. STRAUS: I really don't --

6 COMMISSIONER GOLDWAY: Everybody is so
7 agreeable.

8 CHAIRMAN OMAS: Yes.

9 COMMISSIONER GOLDWAY: Somebody has to make
10 a decision.

11 MR. STRAUS: Sometimes the guy in the
12 Chairman's chair has to just decide.

13 CHAIRMAN OMAS: Well, I'll make the
14 decision. Let's proceed.

15 COMMISSIONER GOLDWAY: Okay.

16 CHAIRMAN OMAS: Sometimes when you try to be
17 nice, it doesn't work, does it?

18 COMMISSIONER GOLDWAY: No.

19 Mr. Keegan, would you call your next
20 witness, please?

21 MR. KEEGAN: Yes, Mr. Chairman.

22 Time Warner, Inc. et al. calls Halstein
23 Stralberg.

24 CHAIRMAN OMAS: Mr. Stralberg, you are
25 already under oath in this proceeding, so we can

1 proceed directly.

2 Whereupon,

3 HALSTEIN STRALBERG

4 having been previously duly sworn, was
5 recalled as a witness herein and was examined and
6 testified further as follows:

7 DIRECT EXAMINATION

8 BY MR. KEEGAN:

9 Q Mr. Stralberg, do you have with you at the
10 desk two copies of the document captioned Surrebuttal
11 Testimony of Halstein Stralberg and marked for
12 identification as TW et al.-RT-2?

13 A Yes, I do.

14 Q Was that testimony prepared by you?

15 A Yes, it was.

16 Q And if you were testifying orally today,
17 would your testimony be the same?

18 A Yes.

19 Q Do you have any corrections or changes to
20 make?

21 A I had one, on page 31, line 6, the word
22 parameter should have an S at the end. It's plural.

23 MR. KEEGAN: Page 31, line 6, the word
24 parameter should be plural.

25 Mr. Chairman, that change has been made in

1 the record copies and I'll hand two copies to the
2 reporter.

3 I move the testimony of Halstein Stralberg
4 be accepted into evidence and transcribed into the
5 record.

6 CHAIRMAN OMAS: Is there any objection?

7 Hearing none, I will direct counsel to
8 provide the reporter with two copies of the corrected
9 surrebuttal testimony of Halstein Stralberg. That
10 testimony is received and will be transcribed into
11 evidence.

12 (The document, previously
13 identified as Exhibit No. TW
14 ET AL.-RT-2, was received in
15 evidence.)

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25 //

TW et al.-RT-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

SURREBUTTAL TESTIMONY OF
HALSTEIN STRALBERG
ON BEHALF OF
TIME WARNER INC.,
CONDÉ NAST PUBLICATIONS, A DIVISION
OF ADVANCE MAGAZINE PUBLISHERS INC.,
NEWSWEEK, INC.,
THE READER'S DIGEST ASSOCIATION, INC.
AND
TV GUIDE MAGAZINE GROUP, INC.

November 8, 2004

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AUTOBIOGRAPHICAL SKETCH

My name is Halstein Stralberg. I am a consultant to Time Warner Inc. on issues related to distribution of magazines through the postal system. For a detailed sketch of my biography, please see my direct testimony in this docket (TW et al.-T-2).

I. PURPOSE OF TESTIMONY

The purpose of this testimony is to rebut claims made in the direct testimonies of witnesses representing ABM, McGraw-Hill, NNA and the Postal Service. I show that claims regarding a very large negative impact of the proposed rates on small publications are exaggerated. I identify the mail piece preparation and mailing practices most likely to cause large increases in postage under cost based rates and show that most small mailers are likely to adjust quickly to the new rates and even benefit from them.

I also address various other arguments raised by opponents of Periodicals rate reform.

II. INTRODUCTION AND SUMMARY

A frequently repeated claim in the intervenor testimonies in this docket is that the type of rate structure proposed by Complainants would have a severe impact on many small and medium sized publications. Furthermore, it is claimed that many of these publications, lacking access to co-mailing or co-palletization facilities, would have no way to adjust their mailing practices, or would be able to do so only by accepting a severe deterioration in service.

Both witnesses Tang (USPS-T-2) and Bradfield (ABM-T-2) give examples of publications whose postage, absent any change in mailing practices, would increase by over 80%. Witness Crews (NNA-T-2), while presenting no calculations, describes a small newspaper whose postage, again absent any change in mailing practices, probably would increase by more than that. Tang and Bradfield have also presented examples of many small and medium sized publications whose postage would increase by much less, or even decrease, but neither offers significant insight into why the

1 impacts on different small publications differ by so much. Instead, the opponents of
reform seem to have simply assumed that the worst possible scenarios will be the norm
3 for small publications under cost based rates.

4 For example, Bradfield states that there is "no doubt that of the 25,000 or so outside-
5 county Periodicals in the mail, a good number would be staring at increases of the type
6 portrayed at the upper end of the range on my exhibit with no reasonable opportunity to
7 change their mailing practices." ABM-T-2 at 6. That upper range which Bradfield refers
8 to is an over 80% increase, but as shown in the following, there are very specific
9 reasons, having less to do with size than with certain unnecessarily costly mailing
10 practices, why a few publications, absent changes in those practices, might face
11 increases of that magnitude under cost based rates.

12 I have analyzed several groupings of small, medium and large publications in order to
13 identify the distinguishing characteristics of those whose postage might increase
14 dramatically under the proposed rates, those whose postage would increase
moderately and those whose postage would decrease. Based on this analysis, it
16 became very clear that use of low-volume sacks (skin sacks), often containing just a
17 single bundle, is by far the predominant reason why some publications would see very
18 high postage increases under the proposed rates. Putting an end to this practice, i.e.,
19 using fewer but fuller sacks, would be the easiest way for such publications to adjust to
20 cost based rates of the type proposed by Complainants.

21 The use of "skin sacks" is in fact quite widespread. It is often justified as being
22 necessary for small publications to receive "adequate" service, though there is no firm
23 evidence that it does lead to faster delivery. Also, use of skin sacks is not limited to
24 time sensitive daily and weekly publications – it extends to many that are published
25 monthly and even less frequently.

26 Given the pervasive use of skin sacks, the large costs they impose on the Postal
27 Service and on the Periodicals class, and the often repeated claims that their use is
necessary for "service reasons," two issues, one of fact and one of policy, need to be
29 considered by the Commission:

1 (1) Is it true that use of "skin sacks" leads to faster delivery of Periodicals, and if so
under what circumstances is it true and are there more economic ways to
provide adequate service?

4 (2) Is it appropriate that an individual mailer should be able to make unilateral
5 decisions (e.g., to mail with many small sacks rather than a few large ones) that
6 impose higher costs on the Periodicals class as a whole, without being asked to
7 accept the cost consequences of such decisions?

8 Another characteristic that influences whether a publication would face more or less
9 postage under the proposed rates is whether its mail pieces are machinable on AFSM-
10 100 machines. Machinability is not considered in the current rate structure, yet with the
11 emergence of AFSM-100 as a much more efficient flats sorting method than any
12 previously available, compatibility with those machines has become an important driver
13 of costs for all flats except those that are presorted to carrier route. If a publication
14 uses a mail piece format that is incompatible with the most advanced processing
15 technology currently available, it will incur higher costs and, as with the use of skin
16 sacks, one must question whether it should be able to impose those higher costs on the
rest of the class (including Periodicals that have modified their own mail piece format in
18 order to be machinable).

19 On the other hand, I believe it may be possible to relax some of the criteria for
20 machinability, as specified in the DMM, to recognize the full range of flats that in fact
21 can be and are being sorted on the AFSM-100 machines.¹

22 As my analysis will show, circulation size is only one factor, and not even the most
23 important factor, in determining how a publication would be affected by a cost based
24 rate structure such as that proposed in this docket. Nor does lack of access to co-
25 mailing and co-palletization doom a small publication to paying much more under cost
26 based rates, though access to such services may help produce further savings as well
27 as opportunities for dropshipping. Among the publication mail.dat files provided by

¹ As I pointed out in my response to ABM/TW et al.—T2-9 (Tr. 1/85), AFSM-100 machines do handle flats much heavier than the 20 ounce limit specified in the DMM, as long as those pieces meet the dimensional requirements. I have observed magazines weighing almost 2.5 pounds being sorted on the AFSM-100 without apparent problems, whereas flats that exceed the specified length, width and thickness limits will not be sorted on those machines.

1 ABM I found, for example, a nationwide mailing of 48 pieces that would pay less under
the proposed rates than under current rates.²

3 There are several components to the Periodicals rate reform proposed in this docket
4 through the testimony of witness Mitchell. I believe it may be useful for the
5 Commission, in its deliberations, to consider not only the overall impact on various
6 publications but also what it is about the proposed changes that would require certain
7 types of publications to pay more (or less) than they currently do. For this reason, as
8 explained in Section III below, I developed a version of the proposed rates that retains a
9 flat editorial pound rate.

10 Section IV describes my analysis of the impact of the proposed rates on different types
11 of publications and attempts to identify the characteristics of publications whose
12 postage would increase and what they might be able to do about it.

13 Section V examines the question of whether Periodicals time to delivery really is
improved by mailing them in very small sacks that travel far into the system, and the
15 particular circumstances under which this might be true.

16 Section VI addresses various other issues raised by opponents, while Section VII
17 summarizes my conclusions. Along with this testimony I have prepared seven library
18 references whose content and purpose are explained in later sections. Some of these
19 must remain subject to limited access in order to honor confidentiality agreements.

20 **III. ISOLATING THE IMPACT OF ZONED EDITORIAL POUND RATES**

21 The alternative rate structure for Periodicals flats presented by witness Mitchell and
22 proposed by Complainants in this case differs from the current rates in two main
23 respects.

- 24 (1) It disaggregates the current rates by introducing separate unit charges for
25 bundles, sacks and pallets, as well as for mailpiece non-machinability, and by
26 recognizing additional presort levels and entry point categories. To

² For a discussion of these files, see Section IV.3 below.

1 compensate for the new bundle, sack and pallet charges, the revenues drawn
from the piece and pound rates are reduced.

2 (2) It uses zoned editorial pound rates, while maintaining the overall preference
3 given to editorial matter.

4
5 I believe both these changes will benefit the Periodicals class, including publications
6 that in the short run might experience higher rates. However, in order to analyze and
7 understand how these changes would affect different types of publications, it may be
8 useful to consider them separately. For example, as I show in Section IV, many small
9 and medium sized publications, including more than half of the ABM publications I
10 analyzed, would immediately, with no change in mail preparation practices, experience
11 lower postage if only the first set of changes were implemented. But because most of
12 these publications today do little or no dropshipping, the proposed zoning of editorial
13 pound rates would raise their postage. On the other hand, many small regional
14 publications would pay less under zoned editorial pound rates.

15 To facilitate analysis of these issues, I developed another rate structure that retains all
the features presented by witness Mitchell, except that the editorial pound rate is the
17 same for all zones. I determined the value of this editorial rate by calculating the total
18 pound rate revenues produced by editorial matter in Mitchell's rate design spreadsheet,
19 then dividing by the total number of outside county editorial pounds. This gave an
20 editorial pound rate equal to 12.95 cents.³ The calculations are shown in library
21 reference TW et al. LR-5, which contains an Excel spreadsheet that is a modified
22 version of Mitchell's rate design spreadsheet.

23 I analyzed the impact, both of the proposed rates and of a modified schedule with the
24 editorial pound rate equal to 12.95 cents across all zones, on different groups of
25 publications, as described below.

³ Note that since the total revenues extracted from the pound rates are less than under current rates, due to some revenues being extracted from bundle, sack and pallet charges, it is not possible for the editorial pound rate to have the same value (19.3 cents per pound) as in current rates. If used in an actual rate schedule, the 12.95 would be rounded to the nearest tenth of a cent. However, I used the more exact value in the analyses described below.

IV. IMPACT OF PROPOSED RATES ON DIFFERENT TYPES OF PUBLICATIONS

In response to interrogatories filed by ABM in an earlier stage of these proceedings, I developed estimates of how the proposed rates would impact each publication owned by the Complainants. Tr. 1/72-75, 112-31. In the following I discuss the likely impact, assuming no change in mailing practices, on several additional groups of publications:

- (1) 251 publications of all sizes, randomly selected from the universe of all outside county publications, by witness Tang;
- (2) 153 small and medium sized publications belonging to five ABM member companies, analyzed by employees in each of those companies;⁴
- (3) 154 ABM publications whose mail.dat files were made available by ABM counsel; and
- (4) Small newspapers, focusing in particular on a "typical" such newspaper described by witness Crews (NNA-T-2).

Determining how a publication would be affected by the proposed rates is a non-trivial exercise, because many of the data elements needed (e.g., number of bundles, sacks and pallets at each presort level) are not available from mailing statements (form 3541). Most of that information is, however, available from mail.dat files. After the January filing of the present complaint, I developed a simple tool to analyze the impact of different Periodicals rate structures on individual publications using mail.dat files. The method involves essentially three steps: (1) importing components of the mail.dat file into a Microsoft Access data base; (2) executing various Access query programs; and (3) copying the query results into an Excel spreadsheet, which then calculates postage under the current and proposed rates and the percent increase or decrease.

My initial intention was simply to use this fairly primitive tool to analyze the impact on some Time Inc. publications. But after the January filing Time Inc. received a number of inquiries about how to determine the impact of the proposed rates. It was decided to make the "tool" available to anyone in the industry who wanted it. Because of concerns

⁴ Summaries of the analyses performed have been made available, though the original data on which the analyses were performed have unfortunately been destroyed. See response to TW et al./ABM-68 (filed September 28, 2004).

1 that the "tool" was too complex and that many small publications, including newspapers,
do not use mail.dat files, I also developed a simpler tool, consisting of just an Excel
3 spreadsheet, which was made available to NNA.

4 It is now known that McGraw-Hill and at least five other ABM members used the above
5 mentioned tool to analyze the potential impact of the proposed rates on some of their
6 publications. The Postal Service, with more resources and access to more data,
7 appears to have developed a different and more powerful methodology for the
8 estimates provided by witness Tang, while NNA does not appear to have completed
9 any numerical impact analysis.

10 1. Impact On Publications Selected By Tang (USPS-T-2)

11 Witness Tang has presented estimates of the impact of the proposed rates on 251
12 publications, selected through a "random" process to include representative small,
13 medium and large publications, with each group further classified as having "high" or
14 "low" density. Tang estimated the percent increase for each selected publication if the
15 proposed rates were implemented and concluded that "small" publications generally
16 would be worse off than "medium" size publications, which again would be worse off
17 than "large" publications. Tang's summary tables indicate that small publications could
18 face postage increases as high as 89.96%, or postage decreases up to 15.87%, with
19 76 out of 101 "small" publications facing increased postage. At the same time, she
20 concludes that most large publications would face lower postage, with decreases up to
21 36.37%, though they could also face increases up to 27.86%.⁵

22 Tang points out that there are many more small publications than large ones, concludes
23 that the smaller publications would be most adversely impacted, and states that while
24 the Postal Service generally is favorably disposed towards the type of rate reform being
25 proposed, it is necessary to consider the impact on all types of publications. She
26 makes it clear that she prefers a more gradual approach and praises the Postal
27 Service's own efforts at reducing costs and nudging customers towards more efficient

⁵ Response of Postal Service Witness Tang to POIR No. 2, item 2 (filed October 15, 2004). Tang originally analyzed 55 publications. The sample was expanded to 251 at the Commission's request.

mail preparation, as in the two co-palletization cases. USPS-RT-2 at 1, 7-9.

But Tang reports no attempt to consider how different publications might respond to the establishment of cost based rates such as those proposed in this docket, or the extent to which publications might have the ability to modify their mailing behavior so as to avoid high increases. I find it surprising that she displayed no curiosity as to how it is possible that some “small” publications could face postage increases of almost 90% while other equally “small” publications face postage decreases of almost 16%.

In response to interrogatories, Tang has provided additional information about her sampled publications and the logic employed in selecting them. As explained below, the information provided is sufficient to identify the main distinguishing characteristics of publications that would experience large increases under the proposed rates and those that would not.

Tang’s additional data are in an Excel spreadsheet that was submitted under protective conditions in USPS LR-1. My detailed calculations that extract from Tang’s data the summary information presented below are included in TW et al. LR-6, which must be subject to the same conditions.

Tang’s “small” publications include 51 with “low” and 50 with “high” density. Table A-1 in Exhibit A summarizes some key mailing characteristics of the small “low density” publications, while Table A-2 shows similar characteristics for the small “high density” publications. Both tables tell similar stories.

In both tables, the left column gives the publication number, corresponding to the number in the left column of Tang’s revised Table 8, in her response to POIR-2. The second to last column gives Tang’s estimates of the percent increase or decrease each publication would experience, assuming no change in mailing practices, under the proposed rates. The last column provides similar estimates for rates that retain a flat editorial pound rate but in all other respects are identical to the proposed rates, as explained in the preceding section. The rows in both tables have been sorted according to the magnitude of the percent increase/decrease under the flat editorial rate scenario described above. The remaining columns contain characteristics that in my

opinion are the most relevant drivers of whether or not a publication's postage would increase or decrease.

Let us look at the top rows in Table A-1, which contain the publications whose percent increases would be largest. These publications tend to use sacks with few pieces and few bundles; in fact many of them have exactly one bundle per sack. The first twelve, all with high percentage increases, have less than two bundles per sack. The next row might appear to be an exception with 7.71 bundles per sack, but this publication would experience a high increase for other reasons.⁶

As one moves further down in this table there are more bundles and more pieces per sack, and the percent increases, especially under the flat editorial pound rate scenario, are lower and turn into decreases in the lower part of the table. Again, there are some exceptions. For example, publication 175 has only one bundle per sack, yet would experience only a very small postage increase, or a decrease under the flat edit scenario. However, in this case the one bundle has 35.5 pieces on the average. As I found also in the case of the ABM publications discussed below, publications with 35 or more pieces per sack tend to have either single-digit postage increases or no increase at all under the proposed rates.

Table A-2 contains 50 "small" publications with "high" density and confirms the trends described above. Of the top 17 publications, all with high increases, twelve have exactly one bundle per sack (or less) and all except one (non-machinable) publication have less than two bundles per sack. And again, as we move further down in the table, where increases are smaller and eventually turn into decreases, the publications are using fuller sacks.

⁶ This publication has the following against it: (1) its pieces are non-machinable, meaning that they cost more to sort; (2) it is lightweight, meaning that piece sorting costs dominate over pound related costs; and (3) it has very low volume (circulation of 1,532) and low density, meaning that most of its pieces have only ADC or MADC presort and therefore require many piece sorting operations, each of which must be done manually or on the slower FSM-1000 machines. Current rates do not recognize non-machinability as a cost causing factor.

1 Since there are many factors that contribute to how a publication would be affected by
 the proposed cost based rates, the trends discussed above are not perfect; i.e., there
 3 are some exceptions. Generally, however, it is clear that the very high increases shown
 4 by Tang, like the similarly high increases cited by ABM witnesses, will not occur if
 5 publications, in response to more cost based rates, stop using low volume sacks and
 6 instead, when palletization alternatives do not exist, use fewer and fuller sacks with
 7 lower presort. Such sacks will be opened at an earlier stage, letting the mail travel as
 8 bundles and loose pieces, which the Postal Service can sort much more cheaply than
 9 sacks.

10 What surprises me most about Tang's data is not that the practice of carrying only one
 11 bundle in each sack would lead to higher postage under cost based rates but that the
 12 practice is as widespread as it must be if Tang's samples of small publications are truly
 13 representative. Clearly, this practice contributes significantly to Periodicals costs.
 14 Eliminating it would reduce those costs, benefiting all members of the Periodicals class.

I understand that many mailers believe that using small sacks with high presort levels is
 16 necessary for service reasons. Given that this perception is so widely shared, it may
 17 not be so surprising that many daily and weekly publications would act on it. But of the
 18 22 publications in the two tables that use exactly one (or less) bundle per sack, there
 19 are four dailies, four weeklies, six biweeklies and eight monthlies. One would think that
 20 at least the monthlies and biweeklies could use fewer sacks. Moreover, there are other
 21 dailies and weeklies that use much fuller sacks (more bundles and pieces per sack)
 22 and therefore would not experience such large increases under the proposed rates.

23 2. Publications Studied By ABM Members

24 Bradfield (ABM-T-2) included in his testimony a four-page exhibit (LB-1) that purports to
 25 summarize an analysis of the impact of the proposed rates on 153 ABM publications.⁷

⁷ Bradfield's exhibit has 144 entries. ABM has pointed out that one entry was repeated four times, i.e., the number of distinct entries is only 141. But ABM also states that two of the entries represent groups of co-palletized titles, and counting each of those titles separately gives a total of 153 publications. See, e.g., Errata to Objection of American Business Media to Requests for Production: Time Warner et al./ABM-T2-3 (filed September 27, 2004).

1 The exhibit shows that most of them would experience higher postage and that for
2 some the increases would be huge (over 80%). But it offers little insight into why some
3 would experience such high increases while others would not, and one might be left
4 with the impression, after reading the three ABM testimonies, that these publications
5 would get higher postage only because they are small, and that they would be unable,
6 at least in the short run, to make the changes needed to avoid paying much higher
7 postage.

8 After extensive interrogatories to ABM and its witnesses, it became clear that the
9 results in Bradfield's exhibit cannot be replicated or verified, because the mail.dat files
10 on which they were based have been deleted, along with most of the files containing
11 intermediate results. Exhibit LB-1 apparently was created by a clerk in ABM's counsel's
12 office, based on results provided by employees of four ABM companies who each had
13 analyzed some of the publications owned by their respective companies, using the
14 Access query method described above.⁸ It appears that the most complete record of
15 this study is an Excel spreadsheet file called 1f1sg01.xls, which apparently also was
16 made up by the above mentioned clerk. Although provided to me some time ago, it has
17 not previously been made part of the record in this docket. It will be filed as library
18 reference TW et al. LR-7.

19 Spreadsheet 1f1sg01.xls has four worksheets, each containing an analysis of certain
20 publications from one of the four participating ABM companies⁹. The format and
21 information presented are different on each worksheet, but all four contain the minimum
22 information per publication that went into Exhibit LB-1. Bradfield and McGarvy (ABM-T-
23 3) appear to have contributed two of the four worksheets with analysis of publications
24 from their respective companies. In the following I will focus on the information
25 presented in the two other worksheets, actually sheets one and four. Those sheets

⁸ Response to TW et al./ABM-T2-8 (filed September 28, 2004).

⁹ According to McGarvy there were actually five ABM member companies involved, but because the fifth one, IDG, publisher of ComputerWorld, InfoWorld and NetworkWorld, had some difficulties, McGarvy performed the analysis for them and included those three publications as lines 88-90 in Exhibit LB-1. See ABM-T-3 at 8-9 and Response to TW et al./ABM-68(j) (filed September 28, 2004).

1 have the most detailed information, besides representing most of the publications that
 were analyzed. They are reproduced in Exhibit B as Tables B1 and B2, representing
 3 respectively entries 116 through 144 and entries one through 75 in Exhibit LB-1. In
 4 both tables, the first column contains a number that corresponds to the publication
 5 number in Bradfield's exhibit. This and other facts cited below were confirmed by ABM
 6 in its responses to TW et al./ABM-69-70 (filed October 15, 2004) and can be verified
 7 by examining the tables.

8 In Table B-1, the five highest percent increases under the proposed rates are,
 9 respectively, 81%, 65%, 38%, 28% and 16%, for publication numbers 121, 128, 119,
 10 144 and 136. For these publications, the value of the "sack minimum" parameter is
 11 equal to 6, while it is equal to 24 for all the other publications in the table (except
 12 publication 131, for which the parameter is not specified). The average number of
 13 pieces per sack for the five publications with the highest increase is shown in the table
 14 as either 13 or 14, while it ranges from 38 to 66 for all the other publications. In other
 words, there is a very direct correlation between low sack minimums (a parameter set
 16 during the fulfillment process), low sack contents, and high postage increases under the
 17 proposed rates. Note also that the five publications with low sack contents all are
 18 monthlies, while the one weekly in this sample (publication 131) uses much fuller sacks
 19 (42 pieces per sack).

20 Table B2 represents more than half the entries in Bradfield's exhibit. Seven of these
 21 publications, numbered as 58 and 70 through 75, are shown with postage increases
 22 over 20% under the proposed rates, while none of the 68 others would have increases
 23 higher than 13%. Publication 58 is shown with a sack minimum of six, publications 70-
 24 75 with minimums of 12 and all other publications, with much lower increases, use 20 or
 25 24 as sack minimums. Furthermore, the seven publications with the highest increases
 26 are published no more frequently than twice a month and four are published monthly.
 27 The one daily publication in this sample happens to use much fuller sacks.

28 To summarize, the very high potential postage increases for some publications, referred
 29 to by Bradfield and the other ABM witnesses, are directly correlated with the practice of
 30 using "skin sacks." Furthermore, the publications that engage in this practice, at least

1 as far as these two exhibits are concerned, are not particularly time sensitive, and so
claims that "skin sacks" are used because "service reasons" make it necessary to use
3 them seem to have little or no merit.

4 All of these conclusions are, of course, fully consistent with those indicated by Tang's
5 much wider selection of publications. In both cases, I believe it is fair to conclude that
6 the very high potential increases referred to by opponents of the proposed rate
7 restructuring simply will not occur. They won't occur because they can be avoided by
8 the very simple action of using higher sack minimums in the fulfillment process,
9 something that does not require any capital investments or access to co-mail/co-
10 palletizing services and likely would be done very quickly if the proposed rates were to
11 become reality. See also witness O'Brien's testimony (TW et al. RT-1) regarding the
12 use of sack minimums.¹⁰

13 Based on the above observations, it is easy to see the fallacy in Witness Cavnar's claim
14 that "many Periodicals mailers would see their rates increase above the Standard rates,
creating it would seem, an ECSI penalty" (ABM-T1 at 21). When asked what analysis
16 he had done to reach this conclusion, Cavnar stated that he had done no analysis and
17 did not need to because of his "experience." He noted that 15 percent of the
18 publications in Exhibit LB-1 are shown with increases over 20% and 8% with increases
19 over 40%, speculated that those percentages would apply to 25,000 publications and
20 cited an industry rule of thumb that Standard rates are about 20% higher than those for
21 Periodicals. Cavnar claimed this showed the accuracy of his original claim. Response
22 to TW et al./ABM-T1-8 (filed September 28, 2004).

23 What Cavnar apparently did not consider is that "skin sacks" are not used for Standard
24 flats, which are subject to the 125 pieces or 15 pounds sack minimum, as spelled out in
25 DMM sections M610.4 and M820.5. The publications that are shown with 20%

¹⁰ It is interesting to note that "sack minimum" is not a parameter in the mail.dat files but rather is used by the fulfillment programs that produce mail.dat files. That three of the four ABM analysts who contributed to Bradfield's exhibit chose to include the "sack minimum" parameter while deleting so much other information indicates that they already do realize the importance of sack minimums and their impact on postal costs.

1 increases or more in Exhibit LB-1 would get those high increases precisely because of
 2 their use of low volume sacks. Were they to switch to Standard rates they would be
 3 forced to use much larger (and fewer) sacks; that, of course, would make them more
 4 efficient and would leave them with much lower postage under the proposed Periodicals
 5 rates, thus eliminating any motivation to switch to Standard. Cavnar claimed he was
 6 "not surprised" when presented with the above facts. Response to TW et al./ABM-T1-
 7 10 (filed October 15, 2004).

8 3. Analysis Of Publications Whose Mail.Dat Files Were Provided By ABM

9 ABM provided, in response to TW et al./ABM-4(b) (filed August 31, 2004), a CD
 10 containing 155 folders with mail.dat files of ABM publications from 2001. It is
 11 unfortunate that Complainants, despite extensive efforts, could not persuade ABM to
 12 provide a representative set of more current mail.dat files. However, ABM counsel has
 13 argued that the older files he did provide are also representative of ABM publications
 14 today.¹¹ As explained below, while newer files would have been preferable, I was able
 15 to extract considerable information from the older data that show how ABM publications
 16 would be affected by and how they might adapt to cost based rates. In fact, the
 17 conclusions from this analysis are straightforward and in complete accord with those
 18 reported above.

19 I used the mail.dat files to analyze 154 publications. As with the publications selected
 20 by Tang, I estimated the potential impact (again assuming no change in mailing
 21 practices) of the proposed rates with and without zoned editorial pound rates.¹²

¹¹ See Answer Of American Business Media To Motion Of Time Warner Inc., Et Al. To Compel Production Responsive To Time Warner Et Al./ABM-5(c) And Time Warner Et Al./ABM-68(k) (filed October 12, 2004), at 9.

¹² There were 155 folders on the CD provided by ABM. In two of these, the mail.dat files were incorrigibly corrupted. One folder contained mail.dat files for two different groups of co-palletized publications. I treated these as two publications, giving a total of 154 analyzed. Were one to count separately each member of the two co-palletized files, the number would be over 160. Some folders contained many mail.dat files representing different mailings of the same publication. In each such case I analyzed the mail.dat files separately and then combined the results to represent the total mailed volume for the given publication.

1 According to my results, more than half of these ABM publications would actually pay
 2 lower postage than they do today if the proposed rates were implemented without the
 3 zoned editorial pound rates. However, since these publications are mostly distributed
 4 nationwide and do little dropshipping, 85% would pay higher rates when the zoned
 5 editorial pound rate is included. And, consistent with earlier observations, the
 6 publications that would pay very large increases are, in practically all cases, the ones
 7 that use low-volume "skin sacks."

8 My analysis is supported by several library references, some of which must remain
 9 subject to protective conditions based on the Complainants' agreement with ABM. TW
 10 et al. LR-8 is the CD with mail.dat files that was provided by ABM counsel. TW et al.
 11 LR-9 is a CD that contains the Access databases I created from those files. TW et al.
 12 LR-10 is an Excel spreadsheet that contains the detailed analysis results for 154 ABM
 13 publications (one worksheet per publication).¹³

14 Table C-1 summarizes the results of my analysis. It is similar to the two tables that
 15 describe Tang's selection of small publications. For further consistency with Tang's
 16 results, I classified an ABM publication as small (S) if the mailed volume in the files
 17 studied was less than 15,000, as medium (M) if it was between 15,000 and 100,000,
 18 and large (L) if it was over 100,000. As can be seen from the table, most ABM
 19 publications are in the medium size category according to these definitions.¹⁴

20 Applying the volumes indicated by the mail.dat files and the number of issues per year,
 21 I estimated that these publications represent an annual volume of 139 million pieces,
 22 with an average piece weight of 0.489 pounds. Somewhat surprisingly, about 62% of
 23 these pieces are entered on pallets, not in sacks. 115 out of the 154 entries placed at
 24 least some volume on pallets and 67 placed more than half on pallets. Since these

¹³ These library references will be filed upon approval by the Commission of appropriate protective conditions jointly requested by Complainants and ABM.

¹⁴ I have avoided inclusion of actual mail volumes in Table C-1 because they conceivably could enable someone familiar with the industry to identify specific publications, which would be contrary to the confidentiality agreement under which the mail.dat files were obtained from ABM. Table C-1 is developed in the spreadsheet in TW et al. LR-10, on the worksheet labeled "results."

1 files are from 2001, before the pallet discounts currently in effect, one might expect a
higher percent on pallets today.

3 The 154 entries in Table C-1 are organized according to how much postage would
4 increase under the proposed rates without zoned editorial rates, as shown in the last
5 table column. I organized them that way because it is obvious that the effect on a
6 publication of zoning the editorial pound rates depends on its weight, editorial content
7 and the degree to which it currently is dropshipped. The last column in Table C-1
8 therefore shows the combined effect of all the other rate structure changes proposed in
9 this docket. The second to last column shows the effect when zoned editorial rates are
10 included.

11 Let us examine the top entries in Table C-1, all of which would experience high postage
12 increases, with or without zoned editorial rates. What all these publications have in
13 common is that they use sacks with little in them. Consider for example the top twenty
14 entries. These are all the publications whose increase would be above 20% without the
zoned editorial rates, and all but one of the publications that would have increases
16 above 20% when zoned editorial rates are included. None of these top twenty
17 publications has more than 1.63 bundles in an average sack; most of them have
18 averages closer to 1.0.

19 Or, consider the first 31 table entries. What they have in common is that they either
20 have less than 1.71 bundles per sack, or their pieces are non-machinable, or both.
21 They are also all the publications whose increase in the last column exceeds 8.16%.

22 And, again similar to the conclusions indicated by Tang's data, non-machinability of
23 mail pieces is another reason why some publications would see higher postage under
24 the proposed rates, though its impact seems to be less than the impact of the use of
25 skin sacks. I identified 27 of the 154 publications as non-machinable, based on DMM
26 criteria and the mail piece length, width and weight information given in the mail.dat
27 files. It is interesting that most of the non-machinable ABM publications were classified

1 as non-machinable not because of extra weight but because of extra width.¹⁵
 Publications obviously have a reason for using unusual formats, such as extra width,
 3 but it seems only fair that they should pay the extra costs that such formats cause
 4 because of their incompatibility with the AFSM-100 machines.

5 One of the mail.dat files provided by ABM showed a mailing, to all zones, with a total of
 6 only 48 pieces, all mailed in a single mixed ADC sack. It turns out that this mailing
 7 would do quite well under the proposed rates. It is the very last entry in Table C-1. Its
 8 postage would decrease by 5.85% under the proposed rates and by 14.57% under the
 9 proposed rates minus the zoning of editorial rates. I mention this here only to illustrate
 10 that the implied claim that very small publications would be the hardest hit by the
 11 proposed rates simply is not true.¹⁶

12 Finally, let me address the question of whether these ABM files, which date back to the
 13 first half of 2001, before R2001-1 had even been filed, are representative of the
 14 situation today. In fact, I would have had more concern over having been given only
 "old" data by ABM were it not for the fact that the conclusions they produce are fully
 16 consistent with the conclusions that emerge from Tang's data as well as the available
 17 information on ABM's own study with more recent data, as described in previous

¹⁵ The DMM defines length as the dimension parallel to the folded/closed edge of a publication or catalog, and requires that it be no more than 15 inches in order to be AFSM-100 machinable. The dimension perpendicular to the length, called "height" in the DMM but "width" in the mail.dat specs, cannot exceed 12 inches. Most of the 27 non-machinable publications referred to above have "width" equal to 15.75 inches. As I understand it, flats that are that wide are non-machinable because they will not fit in the compartments that flats travel in around the AFSM-100 carousel.

Because "length" and "width" were not specified in all mail.dat files, there may be additional non-machinable publications that I could not identify.

¹⁶ Since the calculations that produce the estimated impact on this publication are in the library references that I believe must remain under protective conditions, I will give its detailed characteristics here. The percent editorial content for this publication (as for several other publications studied) was not specified in the mail.dat file. I therefore assumed it to be equal to 50%. Other specifications necessary to verify the results in Table C-1: Weight per piece: 1.14 lb. The pieces appear to meet all criteria for machinability. Piece presort level and pre-barcoding: 5 pieces with (MADC, nonauto), 37 with (MADC, auto) and 6 with (ADC, auto). Four MADC bundles and one ADC bundle. One MADC sack. Zone distribution: 25% zone 1&2, 16.67% zone 3, 4.17% zone 4, 10.42% zone 5, 6.25% zone 6, 6.25% zone 7 and 31.25% zone 8.

1 sections. ABM has also indicated that it believes the mail.dat files I used are
 2 representative and that in fact many of the publications studied are the same as those
 3 ABM witnesses analyzed this year.¹⁷ It may, however, be worth mentioning some of the
 4 things that are likely to have changed:

5 (1) Although the average palletization was already at 62% in 2001, it would appear
 6 likely to have increased following the establishment of the pallet discounts in
 7 R2001-1.

8 (2) Because DADC entry was neither separately recognized nor rewarded in 2001,
 9 I was unable to determine the degree to which the 154 publications do use
 10 DADC entry. Additionally, I would expect the use of DADC entry to be more
 11 frequent today than it was in 2001.

12 (3) Because R2001-1 introduced dropship incentives that apply only to mail that
 13 also is palletized, I would expect ABM's palletized volume to be more
 14 dropshipped today than it was in 2001.

15 But if, as seems likely, ABM publications are more palletized and dropshipped today
 16 than in 2001, then one would expect them to do better, not worse, under the types of
 cost based rates proposed in this docket.

18 In conclusion then, I believe, based on this analysis, that ABM publications generally
 19 are better equipped to adapt to and even profit from cost based rates than its witnesses
 20 appear to realize. Many of them follow mailing practices that would need to change, but
 21 those practices will change when the right incentives are put in place.

22 4. Impact on Small Newspapers

23 As described by witnesses Heath (NNA-T-1) and Crews (NNA-T-2), small rural
 24 newspapers make extensive use of sacks, especially for copies mailed to destinations
 25 far from their home base. The reasons include:

26 (1) their volume is far too low for palletization to be a viable option; and

27 (2) there is a perception, unconfirmed by any systematic study but encouraged by

¹⁷ See Answer Of American Business Media To Motion Of Time Warner Inc., Et Al. To Compel Production Responsive To Time Warner Et Al./ABM-5(c) And Time Warner Et Al./ABM-68(k) (filed October 12, 2004), at 9. However, in checking out the web sites that almost all of these publications now have, I found that a few of them no longer exist in hard copy form at all.

1 some postal managers and evidently shared by these witnesses, that their mail will be delivered faster if it is entered in low-volume sacks with high levels of presort that travel further into the postal system before they are opened.

4 My comments below focus mostly on a single local newspaper, namely the Cameron
5 Citizen Observer in western Missouri. I focus on that paper because Crews describes it
6 as typical and has provided detailed information on its current mailing practices. NNA-
7 T-2 at 6 ff. It also appears to fit Heath's description of a typical small rural newspaper.
8 NNA-T-1 at 2, 8.

9 The Cameron Observer serves primarily a four-county area, using in-county rates for
10 copies to Clinton county. It also has subscribers in various other parts of the country,
11 including so-called "snowbirds," who reside in warmer climates during the coldest
12 months of the year. There are a total of 364 outside county copies each week.¹⁸
13 Crews expresses particular concern about whether, under proposed rates, the
14 newspaper would be able to continue to serve subscribers who live far away, including
15 the "snowbirds." Seven subscribers in Zone 7 are the furthest away from Cameron. He
16 speculates, assuming that these subscribers would be served by an ADC sack, that
17 their postage would increase by 46 cents per copy, or \$20 per year. He further
18 speculates that the increase would be passed on to these subscribers and would cause
19 most of them to be lost.

20 In response to TW et al./NNA-T2-2, Crews confirms that the sack charges for the seven
21 subscribers would be 2.2 cents per copy, rather than 46 cents, if those copies were
22 entered in a mixed ADC sack, along with the 61 copies that are mailed to zones 3-6.
23 However, he adds that:

24 experience would suggest the service would be so slow and unpredictable that
25 the publisher would not likely be able to retain those subscribers. Most likely,
26 then, the cost would be zero, as that mail would cease to exist.

27 Response to TW et al./NNA-T2-2(e) (filed September 30, 2004).

28 However, in response to other interrogatories, Crews provided a detailed breakdown of

¹⁸ Response of Witness Crews to TW et al./NNA-T2-4(d) (filed September 30, 2004).

1 the sacks and sack presort levels currently used to mail the Cameron Observer,
including the use of nine mixed ADC sacks containing a combined total of 81 copies.
3 He confirmed, in the end, that the seven Zone 7 copies in fact already are mailed in one
4 of those mixed ADC sacks. He also agreed that whether one divides 81 copies over
5 nine mixed ADC sacks or puts them all in one such sack makes no difference with
6 regard to service (though it does affect costs), because those sacks are all dumped on
7 the same belt in the same processing plant. Finally, he agreed that if the proposed
8 rates were to take effect, the 81 copies would start to be mailed in one sack rather than
9 nine. In summary, the seven Zone 7 subscribers are already being served the way
10 Crews thought would have catastrophic consequences. Responses of Witness Crews
11 to TW et al./NNA-T2-8-9 (filed October 21, 2004).

12 Neither Crews nor Heath has provided any numeric analysis to substantiate their
13 predictions of catastrophic consequences if the proposed rates were implemented. I
14 have performed such an analysis on the 81 copies of the Cameron Observer that are
currently mailed in mixed ADC sacks. These are the copies with the lowest density and
15 the ones that would be most affected by the zoning of editorial pound rates. How much
16 more would the Observer have to pay for mailing of these copies under the proposed
17 rates? Excel spreadsheets supporting the estimates cited below are provided in library
18 reference TW et al. LR-11.
19

20 Crews indicated a total of 68 copies that are mailed to Zones 3-7. That is 13 short of
21 81, and I therefore assumed the remaining 13 go to Zones 1&2. Using the average
22 piece weight (4.6 ounces) and advertising percentage (50%) indicated by Crews,
23 assuming furthermore that the copies currently pay the basic non-auto piece rate, I
24 estimated total current postage for the 81 copies to equal \$33.48 per issue. Assuming
25 further that the copies are non-AFSM-100 machinable (as are most newspapers) and
26 that they are entered in two mixed ADC bundles in one mixed ADC sack, the postage
27 under proposed rates would be \$39.73 per issue, an 18.7% increase. The increase
28 would of course be much higher if the 81 copies continued to be mailed in nine different
sacks but, as confirmed by Crews, they would not.

30 The main reason the 81 copies would cost more than at present, even after eliminating

1 the unnecessary sacks, is that I have assumed they are non-machinable. Were they
 2 machinable, their postage would be only \$29.20, a decrease of 12.8%.¹⁹

3 Finally, I assumed above that the 81 copies have no bundle presort beyond the mixed
 4 ADC level. However, the Cameron Observer's remote subscribers apparently do live in
 5 certain clusters, which might make some bundle sorting to at least the ADC level
 6 feasible. And Crews indicates, as explanation for the nine mixed ADC sacks, that
 7 "these sortations were originally set up by state, to try to achieve the most direct
 8 transportation route and downstream processing as possible."²⁰ Let us assume,
 9 therefore, that the 81 copies can be divided among nine ADC bundles, but that they still
 10 are mailed in one mixed ADC sack. In that case, postage under the proposed rates
 11 would be \$32.45, or 3.1% lower than currently, even with the assumption of non-
 12 machinability. If the pieces were in ADC bundles, using one MADC sack, and if they
 13 were also machinable, their postage would be 14.19% less than under current rates.

14 To summarize, even the portion of a local newspaper that would appear most
 15 vulnerable to cost based rates would not have to pay significantly more than at present,
 16 and might even pay less, if it simply avoids using many low-volume sacks.²¹

17 This still leaves the question of whether the 81 copies could be delivered faster if they
 18 were mailed in many low-volume sacks. I tend to believe that they would not. Some
 19 reasons supporting that belief are discussed below.

20 Consider first the other newspaper described by Crews, the Atchison County Mail.
 21 Crews reports that this local paper, whose outside county circulation is about the same
 22 as for the Cameron Observer, made an agreement with the local postmaster to enter its
 23 copies in tubs, rather than sacks. After the switch to tubs there have been very few

¹⁹ Non-machinability is a problem with the newspaper format under present processing technology. It will become a much bigger problem if the Postal Service one day automates the carrier in-house function, through, for example, the FSS or DPP approach.

²⁰ Response to TW et al./NNA-T2-9 (filed October 21, 2004).

²¹ The rest of the 364 outside county copies are local and would, for example, benefit from the zoning of editorial rates.

1 service complaints. There are actually two tubs, one to mixed ADC and one to St Joseph, the local SCF. In other words, there is a mixed ADC tub and an SCF tub.²²

3 But the mixed ADC tub, as confirmed by the Postal Service, would be dumped on a belt
4 in the processing plant (St. Joseph), the same belt that a mixed ADC sack would be
5 dumped on.²³ From that belt, bundles and loose pieces would receive further
6 processing which should be exactly the same whether they were dumped from a sack
7 or a tub, with the possible exception that using a sack might increase the possibility of
8 bundle breakage. Similarly, the SCF tub would be dumped on the same belt as an SCF
9 sack would be dumped on, and the service from there on should be exactly the same.
10 Going back to the Cameron Observer, which currently does not have an agreement to
11 use tubs, it would appear that putting the copies to the St. Joseph area in one or a few
12 SCF sacks should allow just as good service as entering them in the large number of
13 small 5-digit and 3-digit sacks that Crews reports are being used for this mail today.

14 Second, the Postal Service these days does a reasonably good job of sorting flats and
is improving its bundle handling capability. Sorting sacks is, at least outside of the
15 BMC's, a slower, costlier and more damage prone process. It therefore makes more
16 sense for a very small volume of flats and flats bundles, such as the non-local copies of
17 the Cameron Observer or Atchinson County Mail, that these volumes be entered with
18 mixed ADC presort at the originating plant and be allowed to travel from there on as
19 bundles or loose flats. That is how First Class flats travel through the system, and there
20 seem to be relatively few complaints about their service.
21

22 Use of flat tubs instead of sacks for such small mail volumes appears to make sense, at
23 least when agreeable to management in the originating post office, and it might make
24 sense for the Postal Service to codify such a methodology in its mail preparation
25 regulations. Dumping flats from a flats tub probably costs a lot less than dumping them

²² Response to TW et al./NNA-T2-7 (filed September 30, 2004).

²³ Response to TW et al./USPS-2 (filed September 28, 2004).

1 from a sack.²⁴

2 Newspapers of this size can probably not be considered candidates for co-mailing or
3 co-palletization. Getting their mail out of sacks, or at least using fewer sacks, is unlikely
4 to be accomplished by the types of "small carrot and no stick" approach that the Postal
5 Service seems to favor. On the other hand, imposing a cost based per-sack charge
6 would reduce the number of sacks very quickly.

7 **V. DOES USE OF "SKIN SACKS" PRODUCE FASTER DELIVERY?**

8 As the above examples make abundantly clear, except for the zoned editorial pound
9 rate component of the proposed rates, the question of how those rates would affect a
10 small or medium sized mailer is mostly a question of whether that mailer uses a lot of
11 skin sacks. To a lesser extent it is also a question of mail piece machinability. A mailer
12 with too little volume to palletize on his own, who lacks access to co-mailing, co-
13 palletization or pool shipping services, can still do fairly well (at most a single digit
increase and in many cases reduced postage) under the proposed rates if he simply
15 avoids the use of low-volume sacks and uses a machinable mail piece format.

16 That still leaves open the question of whether use of low-volume sacks really does lead
17 to faster delivery, as many people evidently believe, even without any compelling
18 evidence that it is true. While I obviously don't know the full answer to this question, I
19 hope the following discussion will at least shed some light on the issue.

20 One thing that is known is that Periodicals that are entered far from the destination
21 office occasionally incur very long delays, sometimes several weeks. As I indicated in
22 response to an interrogatory following my direct testimony, I myself have experienced
23 this on several occasions. Response to MH/TW et al.-T2-3: Tr. 1/134-35.

²⁴ A sack must first be untied, then grabbed in its two lower corners and shaken until it is absolutely certain that no leftover piece remains lodged inside the sack. Then it must be straightened and recycled for future use by another mailer. A tub, on the other hand, can be emptied in a single motion and in most cases be put to other immediate use in the same facility.

1 It is also known that mailers as well as recipients of Periodicals often complain about
 2 service delays and that some postal managers, rather than address the underlying
 3 problems in postal operations that cause the delays, advise mailers to put their mail
 4 pieces in low-volume, high-presort sacks. The inevitable result of giving such advice to
 5 many mailers is to cause more work for postal facilities, which can only increase the
 6 chances of even more service delays as well as higher Periodicals costs.

7 It should be obvious that the occasional very long service delays (e.g., weeks rather
 8 than one or two days), have nothing to do with the presort level of the container the mail
 9 is entered in. Such delays result from a breakdown in postal operations, e.g., mail
 10 getting stuck in a corner and not being moved for a long time. They can only be
 11 avoided by the Postal Service tightening up its operations, assuring that facilities
 12 observe critical dispatch times, sort mail in the order in which it arrives so that no mail is
 13 delayed for long periods and give the prescribed priorities to different mail classes.

14 That however, does not preclude the possibility that the container presort level could
 15 make a one day or maybe even two days difference in time to delivery. To address that
 16 possibility, let us focus on the case of a small mailer who enters his mail at the origin
 17 office for delivery at a remote location and who does not have the option of co-mailing
 18 or co-palletization, yet tries to prepare his mail so as to maximize its chances of being
 19 delivered as soon as possible. This mail will travel through the system first in sacks,
 20 then in bundles and eventually as single pieces. The presort level of the sack
 21 determines how far into the system the mail will stay in the sack before it hits the Postal
 22 Service's more efficient bundle and piece sorting operations. Let us break down the
 23 problem further by considering three types of choices this mailer might have to make:
 24 (1) whether to split a 3-digit/SCF sack into smaller 5-digit sacks; (2) whether to split an
 25 ADC sack into smaller 3-digit/SCF sacks; and (3) whether to split a mixed ADC sack
 26 into smaller ADC sacks.

27 5-Digit Versus 3-Digit/SCF Sacks. As I pointed out in my response to
 28 MH/TW et al.-T2-3, the 5-digit and 3-digit sacks will be handled the same way
 29 and travel the same path until they arrive at the destinating SCF. The 5-digit
 30 sacks will at that point have incurred higher costs because there are more of

1 them, but from the service point of view all we need to consider is what happens
2 once they get to the SCF. Witness McGarvy refers to a recent Postal Service
3 experiment (at the Carol Stream processing plant) where it appeared that the
4 mail in the 3-digit sacks in fact got delivered earlier. She dismisses the
5 experiment as having used a too small sample, but admits that she cannot fully
6 explain her concern that the mail in 3-digit sacks might take longer. ABM-T-3 at
7 7 and response to TW et al./ABM-T3-15 (filed October 14, 2004).

8 While the Carol Stream experiment may have used a small sample, I believe its
9 conclusions are perfectly logical and could have been expected. The notion that
10 the 5-digit sack should give faster delivery is based on the assumption that at the
11 DSCF platform it will be sent directly on the next truck to the DDU, while the 3-
12 digit sack goes inside the building to a bundle sorting operation where
13 conceivably a delay might occur, causing it to miss dispatch to the DDU. But in
14 reality, postal facilities nowadays are moving more and more of their incoming
15 secondary (5-digit to carrier route) flat sorting away from the DDU's to the
16 processing plants, in order to take advantage of their automated flats sorting
17 capacity. In an environment with declining volumes, where many plants already
18 have more AFSM-100 processing capacity than they are able to use, this trend
19 must be expected to continue. So unless the 5-digit sack contains carrier route
20 bundles, its contents may often be sent from the DDU back to the plant for
21 automated sorting. By the time it gets back to the plant, however, the mail that
22 was in the 3-digit sack may already have been sorted to carrier route and
23 dispatched to the DDU. This makes it possible and in some cases even likely
24 that the mail in the 5-digit sack will be delivered one day later.

25 The only case then, where non-carrier route mail in 5-digit sacks might be
26 delivered faster is if it is destined to a 5-digit zone for which incoming secondary
27 sorting still is performed manually at the DDU. This is most likely to occur for
28 outlying 5-digit Zip codes with low volume. And even in these cases it will occur
29 only if the plant fails to meet its own service standards, e.g., by not finishing the
30 bundle sorting before the critical dispatch to the given DDU.

31 3-digit/SCF Versus ADC Sacks. In this case I believe there may be examples
32 where under the present Postal Service sorting scheme the mail in the 3-
33 digit/SCF sacks could get faster delivery to some addresses. The sacks may

pass through a BMC/transfer hub where the Postal Service sorts sacks but normally not Periodicals bundles. When a Periodicals ADC sack (or pallet) comes to the BMC/transfer hub it is sent on to the ADC where it is opened and its bundles sorted. Some of those bundles may be to other SCF's served by the ADC. If those bundles were in 3-digit/SCF sacks they would have gone directly from the BMC/transfer hub to the destinating SCF, bypassing the ADC, which could give a one-day delivery advantage in some cases. However, this is likely to occur only for sacks going to a small SCF that is not an ADC. ADC's are large SCF's that serve smaller surrounding SCF's. Most of the mail in an ADC sack may be to the ADC's own service area and for that mail there is unlikely to be any service advantage in using 3-digit rather than ADC sacks.

ADC Versus Mixed ADC Sacks. Finally, assume that a small mailer has a few ADC bundles and must choose between making a separate ADC sack for each bundle or combining them into a larger mixed ADC sack. It is hard to see how there could be any service advantage of using the smaller sacks in this case. If one mixed ADC sack is used, it will immediately be dumped at a belt in the originating facility where the bundles are sorted and dispatched to each ADC. If several ADC sacks are used, they must be sorted, most likely manually, at the originating facility. Since there are over 90 ADC's, this sorting may require more than one iteration with probabilities of delay at least as large as for the bundles from the mixed ADC sack. When they get to the DADC, the bundles that were sorted at the originating facility will go directly to the bundle sorting operation at the DADC, while the bundles that are still in ADC sacks must wait for those sacks to be sorted.

Mailers engage in the practice of using many small sacks because under current rates it is free, and because they think it might reduce time to delivery. But as discussed above, except possibly in the case of 3-digit versus ADC sacks, there is no real reason to believe this practice will help delivery. The only empirical "study" that anyone has been able refer to, the Carol Stream study, points in the opposite direction.

Once the use of "skin sacks" is no longer free, as with implementation of the types of rates proposed in this case, I would expect their use to drop dramatically, which should lead to lower Periodicals costs.

1 VI. MISCELLANEOUS ISSUES

2 Opponents have come up with many reasons for postponing indefinitely any serious
3 reform of the Periodicals rate structure that would make the rates more cost based.
4 This section addresses some of those objections.

5 1. There Is No Need To Wait For Future Changes In Technology.

6 Bradfield refers to changes that the Postal Service may make at some time in the future
7 and considers them good enough reason for doing nothing right now. In particular, he
8 refers to the possibility that the Postal Service may try to automate the carrier
9 sequencing of flats, using either the FSS (flats sequencing system) or DPP (delivery
10 point packaging) concept. He argues that:

11 What all of this means is that the pattern of cost incurrence is likely to undergo
12 significant change in the next few years, and I think it would be a mistake to
13 restructure rates without consideration of those changes.

ABM-T-2 at 11.

15 The Postal Service has been working on plans for new technology deployment since at
16 least 1970. I doubt if there has been any time since then that one could not have made
17 the same type of argument for making no change until some future event happens.
18 The possibility that the Postal Service may at some point deploy either FSS or DPP is
19 particularly irrelevant to the Complainants' proposal in this case²⁵. Both concepts deal
20 exclusively with what happens to the flats after they have arrived at the destinating SCF
21 and been sorted to the 5-digit ZIP code level. The present proposal, on the other hand,
22 deals primarily with what happens before the DSCF. No matter how flats are eventually
23 sequenced for delivery, they still need to get to the DSCF as rapidly and inexpensively
24 as possible. Implementation of FSS or DPP may affect the value of carrier route

²⁵ Note that FSS and DPP are two very different concepts. Neither of them has been proven feasible in practice yet, and the Postal Service is keeping both options open. One thing that is certain is that under both FSS and DPP the effect of non-machinability will be much more serious than it is today.

1 presorting, but that is not what the present case is about.²⁶

– 2. The Large Increases In Periodicals Costs Over Many Years Make Fundamental
 3 Change In The Rate Structure More Important, Not Less.

4 Applying the same convoluted logic that seemed to underlie an ABM interrogatory to
 5 me (see ABM/TW et al.-T2-2 and my response to it, Tr. 1/76-77), Cavnar suggests that
 6 further changes in the way Periodicals mailers prepare and enter their mail will be
 7 useless:

8 if the significant changes made by all segments of the Periodicals industry in the
 9 past twenty years did not have the expected effect of “driving costs out of the
 10 system,” why should we believe that similar changes in the next few years will
 11 have that effect?

12 ABM-T-1 at 23.

13 The truth is, of course, that were it not for the very substantial changes that have been
 14 made by many Periodicals mailers, Periodicals costs would be much higher than they
 are today, and all mailers would be paying substantially higher rates. Furthermore, as
 16 shown in the preceding sections, there are at least some segments of the industry
 17 (those whose postage would increase the most under the proposed rates) that can
 18 make some more changes (e.g., use fuller sacks if palletization is not an available
 19 alternative) and likely will make such changes if the proposed rates are implemented.
 20 For a description of many more changes that can and likely will be made, by large and
 21 small mailers, see the rebuttal testimony of witness O’Brien (TW et al. RT-1).

22 It is true that I have argued in the past (and may argue again, depending on what is
 23 presented in the next rate case) that in an increasingly automated environment where
 24 more and more costs are “fixed” and more and more employee time is spent “not
 25 handling” mail, an excessive portion of those fixed and not handling costs tends, under

²⁶ Bradfield also mentions Postal Service claims that it has reduced its transportation costs and plans to deploy APPS machines for bundle sorting as reasons for doing nothing. ABM-T-2 at 10-11. Neither reason is valid. If, for example, unit transportation costs really have declined, that will automatically be reflected in lower zone rate differentials in the rates that results from the next rate case, regardless of whether those rates incorporate the features recommended by Complainants in this docket.

the Postal Service's costing system, to be attributed to the least automated mail, which includes Periodicals. But since those fixed costs are attributed in proportion to "direct" costs, the only dependable way for Periodicals to avoid ever higher cost attribution is to minimize the direct costs they impose on the Postal Service. One way to do that is to not make the Postal Service handle more sacks than is really necessary, i.e., by avoiding excessive use of "skin sacks."

3. The Proposed Rate Structure Is Not "Unmanageably Complex," But Will Encourage Creative Solutions By Mailers And Software Developers.

Witness Schaefer (MH-T-1) expresses great concern about "unmanageably complex" price signals that will overwhelm most Periodicals mailers. He describes in considerable detail the difficulty of "optimizing" the mailstream under these new signals and laments that there is no suitable software available, that mail.dat files do not contain all the information needed, etc.

Like so many opponents, Schaefer sees only the difficulties and not the tremendous opportunities that cost based price signals will open up. The current rates send no price signals to mailers that, for example, using a large number of low-volume sacks will cost the Postal Service a lot of money.²⁷ What the proposed rates will do is to inform mailers what their mail costs as it currently is being prepared. That will mobilize the ingenuity of small and large mailers as well as professional software developers to find ways to prepare a mailing so as to minimize the combined cost to the mailer and the Postal Service.

I think perhaps Mr. Schaefer reads too much into the term "optimize." To optimize, in the strictest mathematical sense, all the preparation parameters for a Periodicals mailing is indeed a very complex task. On the other hand, it is not really necessary, as long as one can find a reasonably good solution. I worked for many years with various

²⁷ Or at best the signals are muddled. For example, there are some per-piece signals to entice mailers into putting mail on pallets. But most of the underlying savings lie in reducing the number of sacks, and current rates fail to inform mailers who cannot palletize for whatever reason that it would help a lot if they would simply use fewer sacks and fill them up more, which would probably reduce the mailers' preparation costs as well.

1 models for mathematical optimization applied to many different situations. One thing I
learned is that in most real life situations the "optimum" is elusive because it may shift
3 as soon as any parameter changes and because it may be very difficult to compute
4 without a very fast computer. On the other hand, there are many things one can do to
5 change a bad solution into a better solution.

6 For example, as shown in earlier sections and discussed in O'Brien's testimony, many
7 mailers who, if the proposed rates were implemented tomorrow, would face very large
8 increases could start by simply changing the sack minimums they use so as to avoid
9 the creation of a large number of skin sacks. In many cases that might be enough to
10 eliminate a potentially large increase.

11 But sack minimums are only one of many things that a mailer might change. Take for
12 example the question of how many pieces there must be for a given area (carrier route,
13 5-d zone, 3-d zone, etc.) in order to make up a presorted bundle to that area. Today,
14 there is little flexibility and everything is pretty much defined by the six-piece rule; when
there are six or more pieces to a 5-d zone, for example, then a 5-d bundle must be
16 made, but if there are only five pieces, then such a bundle may not be made. Should
17 the six piece bundle minimum be changed to something else? The answer is that it
18 depends. If, for example, the pieces are non-machinable, smaller bundles may be
19 warranted because the sorting operations that the pieces bypass by being bundled are
20 more expensive. Similarly, if a 5-digit bundle that potentially could be split off from a 3-
21 digit bundle is going to be entered on an ADC pallet it may cost more and be less
22 desirable than if it is going to be entered on a 3-digit pallet.²⁸ There will be numerous
23 trade-offs like that, each of which presents an opportunity to do things more efficiently
24 than today and each of which can be calculated based on the given rates (unit costs)

²⁸ Schaefer's comment that mail.dat files cannot be used "to vary the number of copies in a bundle" (MH-T-1 at 24) is true, but it is also irrelevant. All it means is that if one wants to play with (try to optimize) the number of pieces in various types of bundles, the proper place to do so is in the fulfillment program that operates on the list of addresses to which copies are to be mailed.

1 for pieces, bundles and containers at different presort levels.²⁹

– By 2006, when cost based rates of the type proposed could go into effect, one hopes
 3 developers of Periodicals fulfillment software will have had time to modify their
 4 programs to take maximum advantage of the new opportunities. But if not, existing
 5 software may already give reasonably good results by proper setting of user defined
 6 parameter^{5/} such as sack minimums.

7 VII. CONCLUSIONS

8 Opponents have come up with many reasons for postponing more-or-less indefinitely
 9 any serious reform of the Periodicals rate structure that would make the rates more cost
 10 based. They argue, for example, that Periodicals costs are not growing as sharply as
 11 they once did, that the Postal Service is planning other cost reduction moves, that the
 12 Postal Service's own tinkering with the rate structure (as in the recent co-palletization
 13 cases) already is getting some flats out of sacks, that the proposed rates still are not
 100% cost based because there are some cost drivers that remain unrecognized, that
 15 the Postal Service might introduce some new technology (e.g., FSS/DPP) in the future
 16 and that nothing should be done until that future has arrived, that using the proposed
 17 rate structure will be too difficult for small mailers, that it is too soon for such a radical
 18 change, etc.³⁰

19 But most of all, opponents have predicted dire consequences for smaller publications

²⁹ Schaefer misquotes my comments to McGraw-Hill counsel. When asked about some specific trade-off involving whether to use more or fewer sacks, I commented that it requires no more than high school math to figure out how many bundles one should have before it is worthwhile making up an extra sack or pallet. Tr. 1/280. He quotes me as saying anyone with high school math could optimize a mailstream under the proposed rates. The latter is obviously more of a challenge, because it would involve development of a computer program that identifies numerous different interrelated trade-offs and solves all of them. But I believe there are developers of fulfillment software that have such capabilities.

³⁰ Opponents, particularly witness Miller (USPS-T-1), have also argued that the cost data I relied on in my testimony to develop the unit costs needed in Mitchell's rate design are too old, a fact that was readily acknowledged in my testimony, in the TW et al. Complaint and by the Commission itself when it declared at the outset that no specific rates would be recommended at the end of this docket.

1 whose postage, they say, will increase by some enormous percentage. They further
 2 argue that these small publications will be left defenseless, unable because of their size
 3 to adapt to the new rate structure and therefore doomed to pay much higher rates or
 4 even to disappear.

5 It is the opponents' predictions of gloom that are the main focus of my present rebuttal.
 6 To address them, I set out to analyze the various groups of small publications for which
 7 sufficiently detailed information was available to me. My goal was to try to answer the
 8 question that Tang, the ABM witnesses and others did not address, namely, why it is
 9 that some small publications in fact would do quite well under the proposed rates while
 10 others might have increases approaching 90%.

11 After I began to analyze data provided by ABM and by Tang, it quickly became clear
 12 that the answer to my inquiry was simpler than at first anticipated – it really is mostly
 13 about the use of “skin sacks”. Each data source indicated that the practice of using
 14 skin sacks extends far beyond the weekly and daily publications who might argue that
 15 they do it for the perceived service benefit. The same practice is used by publications
 16 with as few as four issues per year. The proposed rates would in most cases put an
 17 end to that practice and thereby reduce Periodicals costs substantially.

18 Another important characteristic of a publication that would affect its postage under the
 19 proposed rates is mail piece machinability. Current rates do not consider machinability
 20 even though it affects costs, especially for flats that are entered with low levels of
 21 presort and therefore require several iterations of piece sorting. Some publications may
 22 be able to change their mail piece format to achieve machinability. Others may be
 23 unable to do so or may have reasons for not wanting to. In any case I believe it is fair
 24 and reasonable that the extra costs of handling odd size pieces should be borne by
 25 those who put them in the mailstream.³¹

³¹ However, as I pointed out in the introduction, the definition of machinability must be realistic in terms of what types of flats can be and are being sorted on the AFSM-100 machines, and that would probably include expanding the current 20 ounce weight limit specified in the DMM, for flats that meet all other machinability criteria.

1 If cost based rates of the type proposed here are put into effect, they will lead to more
efficient use of postal resources, because mailers will be confronted with the fact that
3 each bundle, sack and pallet costs something, just as the use of a non-machinable mail
4 piece format costs something. It is true that the need to modify inefficient practices may
5 be felt most strongly by the mail that spends the most time in the postal system, which
6 generally consists of smaller publications. I do not agree, however, that this is a matter
7 of punishing small publications. As I hope to have demonstrated above, most small
8 publications should be able to adjust fairly quickly to a point where their postage is not
9 significantly higher than today, and in some cases it will be lower.

10 I have also attempted to address the issue of Periodicals service, which at times leaves
11 much to be desired except for publications that are entered very close to their final
12 destination. The use of "skin sacks" appears to be motivated in some cases by the
13 perception that it will somehow produce faster delivery, a perception that far too often is
14 encouraged by postal managers who can think of no other way to address legitimate
complaints about poor service. It is rather remarkable that even though it has existed
16 for many years, no one can refer to any study, whether by the Postal Service or mailers,
17 that can determine whether this perception has anything to do with reality, except one
18 small recent Postal Service study that indicates it is not true. Logic would seem to
19 indicate that in a fully rational and well organized system the mail preparation method
20 that requires the least amount of work for the Postal Service should also lead to the
21 fastest delivery. In a preceding section I have tried to identify, based on my
22 understanding of current processing methods, the instances where use of "skin sacks"
23 might improve the chances of faster delivery and the instances where it is unlikely to do
24 so.

25 For all of the reasons given above, I hope that the Commission will strongly recommend
26 that the Postal Service present in the next rate case a set of cost based Periodicals
27 rates, based on the most recent cost data and the general principles developed in this
28 docket.

Table A-1: Impact of Proposed Rates On Small, Low Density Publications With and Without Zoned Editorial Rates								
Publication No.	Editorial Content	Pounds per piece	Issues/ Year	Machin able?	Bundles per sack	Pieces per sack	Percent Postage Change	
							With Zoned Edit Rates	With Flat Edit Rates
244	100%	0.24	12	M	1.00	10.00	89.96%	81.18%
152	65%	0.28	52	M	1.00	12.61	67.18%	62.93%
163	75%	0.27	50	M	1.20	15.27	47.98%	48.38%
232	100%	0.56	24	M	1.00	10.94	59.02%	46.58%
251	72%	0.08	52	M	1.09	14.55	46.11%	46.22%
242	71%	0.37	12	M	1.00	12.85	48.70%	42.98%
249	55%	1.02	365	NM	1.80	11.70	36.61%	38.94%
227	58%	0.33	365	M	1.00	11.44	32.78%	32.94%
169	69%	0.18	307	M	1.04	16.35	32.01%	32.65%
246	100%	1.99	24	NM	1.00	10.42	48.89%	21.02%
160	98%	0.46	52	M	1.87	27.93	11.99%	16.12%
243	54%	0.23	365	M	1.00	16.89	14.76%	14.73%
217	80%	0.17	53	NM	7.71	98.59	13.83%	11.68%
228	80%	0.19	12	M	3.90	48.94	17.33%	7.32%
173	100%	0.11	6	M	3.53	43.47	12.00%	6.54%
230	28%	0.12	4	M	3.34	41.24	6.70%	6.03%
234	100%	0.46	4	M	4.27	35.09	11.43%	4.63%
229	99%	1.25	16	NM	3.00	33.05	30.01%	3.99%
248	66%	0.27	13	M	3.12	45.53	8.52%	2.38%
158	97%	0.39	52	M	2.86	49.36	21.00%	1.97%
170	100%	0.36	4	M	2.33	40.97	29.55%	1.58%
174	59%	0.20	12	M	5.44	51.83	3.52%	1.55%
220	34%	0.29	12	M	3.27	46.50	3.25%	1.37%
218	87%	0.46	6	M	3.10	40.40	14.25%	1.36%
224	100%	0.23	6	M	3.94	47.11	7.94%	1.10%
226	77%	0.45	6	M	2.95	38.96	9.54%	0.53%
231	66%	0.22	12	M	4.22	48.10	4.44%	0.47%
245	46%	0.39	10	M	3.40	45.54	4.19%	0.32%
239	50%	0.65	12	M	3.07	34.20	4.72%	0.29%
153	97%	0.11	26	M	4.64	64.24	0.55%	-0.08%
247	100%	0.66	12	M	2.87	38.54	15.76%	-0.60%
151	40%	0.53	13	M	2.98	41.77	2.04%	-0.98%
241	63%	0.56	12	M	2.81	39.35	9.03%	-1.27%
225	84%	0.59	6	M	2.79	38.88	7.70%	-1.77%
171	100%	2.64	52	NM	1.77	16.18	28.86%	-1.94%
175	100%	0.20	12	M	1.00	35.50	1.27%	-2.10%
172	86%	1.22	12	M	2.72	27.61	12.53%	-2.54%
214	39%	0.71	6	M	3.58	35.36	3.76%	-2.77%
235	56%	0.49	12	M	4.74	61.03	1.30%	-4.79%
216	99%	0.95	52	M	4.19	38.54	-3.15%	-4.99%
250	67%	0.33	12	M	5.53	61.47	-3.19%	-6.44%
223	40%	1.73	12	M	3.90	32.50	1.13%	-8.22%
237	95%	0.15	26	M	3.41	48.50	-6.35%	-8.77%
236	43%	0.63	24	M	2.63	39.31	-9.84%	-9.41%
215	92%	0.63	22	M	2.00	29.20	-2.06%	-9.41%
240	47%	0.35	365	M	3.14	41.71	-9.15%	-9.58%
233	70%	0.13	48	M	3.00	62.83	-10.89%	-12.11%
219	76%	0.13	22	M	5.20	71.60	-12.62%	-14.56%
222	44%	0.08	50	M	5.00	88.00	-15.64%	-15.64%
221	75%	0.12	23	M	11.67	143.33	-15.87%	-17.46%
238	83%	0.11	22	M	17.33	193.00	-14.62%	-17.47%

Table A-2: Impact of Proposed Rates On Small, High Density Publications With and Without Zoned Editorial Rates								
Publication ID	Editorial Content	Pounds per piece	Issues/ Year	Machin able?	Bundles per sack	Pieces per sack	Percent Postage Change	
							With Zoned Edit Rates	With Flat Edit Rates
154	68%	0.16	309	M	0.89	10.18	80.00%	80.54%
213	64%	0.37	313	M	1.11	9.45	75.71%	79.16%
189	43%	0.38	12	M	1.00	11.47	62.71%	61.69%
155	47%	0.19	260	NM	2.13	21.28	50.80%	52.35%
191	81%	0.16	24	M	1.00	16.53	48.78%	50.10%
197	100%	0.64	24	M	1.00	12.18	52.11%	48.78%
179	65%	0.26	53	NM	1.00	12.22	45.94%	48.42%
211	72%	0.98	12	M	1.00	9.28	48.08%	45.77%
156	60%	0.46	365	NM	1.25	17.33	37.29%	42.46%
157	71%	0.41	255	NM	1.00	14.04	32.64%	39.92%
196	100%	0.57	12	M	1.00	15.11	85.77%	38.78%
188	82%	0.26	52	NM	1.00	14.02	31.09%	36.66%
203	100%	0.91	24	M	1.00	12.86	55.45%	32.99%
192	100%	0.25	54	NM	1.87	24.15	26.52%	27.93%
194	100%	1.55	24	NM	1.00	11.76	19.87%	27.07%
184	26%	0.35	52	M	1.00	15.61	24.53%	25.28%
202	26%	1.14	12	M	1.00	12.36	24.65%	21.20%
208	50%	0.15	52	M	3.32	39.57	14.19%	15.30%
159	41%	0.28	52	M	1.31	35.09	12.51%	14.30%
162	75%	0.15	52	M	3.30	49.04	8.98%	11.95%
207	71%	0.27	52	M	4.17	36.50	6.96%	10.39%
212	100%	2.64	24	NM	1.58	12.71	34.07%	9.45%
164	26%	1.90	308	NM	2.17	9.42	4.10%	9.04%
195	61%	0.10	52	M	3.08	47.73	7.15%	8.72%
209	100%	0.46	52	M	1.99	31.03	0.22%	8.65%
198	70%	0.26	11	M	4.09	42.86	10.89%	7.87%
190	28%	0.13	17	M	2.63	35.76	6.92%	7.70%
200	63%	0.28	53	NM	2.15	36.63	3.48%	7.27%
206	100%	0.08	26	M	2.47	55.24	4.30%	6.25%
161	100%	0.07	12	M	4.17	50.85	9.35%	6.04%
178	79%	0.24	6	M	3.75	47.65	12.50%	5.56%
176	44%	0.20	52	NM	2.86	39.56	-0.36%	2.73%
193	66%	0.53	10	M	3.21	39.83	10.81%	2.30%
183	83%	1.87	12	NM	1.95	24.14	16.12%	1.99%
166	90%	0.06	52	M	2.97	52.56	-1.38%	1.19%
168	33%	1.20	365	NM	1.24	25.23	-5.46%	0.03%
205	100%	0.18	36	M	4.01	60.21	-1.31%	0.01%
204	100%	0.52	12	M	3.42	59.75	10.23%	-0.26%
201	100%	0.32	251	M	4.32	54.14	-4.01%	-0.75%
180	94%	0.25	4	M	2.79	48.30	-7.00%	-1.50%
165	35%	0.13	12	M	4.43	55.00	-3.18%	-2.35%
185	100%	0.55	24	M	3.82	44.35	8.23%	-2.54%
167	42%	0.48	52	M	2.84	40.32	-4.26%	-2.63%
199	99%	0.67	52	M	2.93	49.41	12.67%	-2.93%
182	99%	0.77	52	M	2.88	46.78	-1.26%	-3.75%
186	42%	0.30	27	M	3.39	47.56	-8.98%	-4.99%
187	100%	0.06	26	M	10.71	132.42	-7.76%	-5.83%
210	76%	0.31	24	M	2.95	49.44	-13.46%	-7.78%
181	59%	0.20	12	M	3.44	47.83	-10.40%	-8.57%
177	100%	0.10	12	M	1.00	80.52	-12.19%	-9.96%

Table B1: Additional data on entries 116 through 144 in Bradfield's Exhibit LB-1

Publication	Weight (lbs)	AD %	# of pieces	# of bundles	# of pallets	# of sacks	Avg. pcs per bundle	Pallet ized pieces	% pallet ized	Avg. pcs per pallet	Sacked pieces	% sacked	Avg. pcs per sack	Avg. wgt per sack	Sack mini mum	Current Postage	New Postage	% increase
116	0.21	43.04%	18,060	2,101	1	331	9	1598	8.85%	1598	16462	91.15%	50	10.4	24	\$5,022	\$5,629	12.09%
117	0.23	35.83%	35,723	3,527	4	458	10	5805	16.25%	1451	29918	83.75%	65	15.0	24	\$9,601	\$10,428	8.61%
118	0.22	50.40%	24,229	2,469	0	407	10	0	0.00%	0	24229	100.00%	60	13.1	24	\$7,228	\$7,754	7.28%
119	0.66	46.16%	29,405	4,242	20	1552	7	8507	28.93%	425	20898	71.07%	13	8.9	6	\$12,121	\$16,723	37.97%
120	0.18	51.00%	36,064	4,427	0	678	8	0	0.00%	0	36064	100.00%	53	9.6	24	\$10,340	\$11,347	9.74%
121	0.19	46.20%	29,540	3,331	0	2272	9	0	0.00%	0	29540	100.00%	13	2.5	6	\$7,799	\$14,115	80.98%
122	0.72	59.56%	102,771	13,106	130	250	8	91363	88.90%	703	11408	11.10%	46	32.9	24	\$45,794	\$47,840	4.47%
123	0.18	49.00%	22,805	3,155	0	523	7	0	0.00%	0	22805	100.00%	44	7.8	24	\$6,356	\$7,304	14.92%
124	0.48	48.06%	40,808	5,096	25	375	8	20465	50.15%	819	20343	49.85%	54	26.0	24	\$14,859	\$15,728	5.85%
125	0.17	36.94%	12,752	1,407	0	260	9	0	0.00%	0	12752	100.00%	49	8.3	24	\$3,481	\$3,925	12.75%
126	0.39	49.48%	33,774	3,620	11	404	9	9217	27.29%	838	24557	72.71%	61	23.7	24	\$11,397	\$12,073	5.93%
127	0.69	64.05%	52,012	6,045	68	297	9	38530	74.08%	567	13482	25.92%	45	31.3	24	\$22,838	\$23,980	5.00%
128	0.24	50.86%	22,948	2,587	2	1560	9	2483	10.82%	1241	20465	89.18%	13	3.1	6	\$6,614	\$10,918	65.07%
129	0.34	45.82%	32,087	3,869	10	415	8	10223	31.86%	1022	21864	68.14%	53	17.9	24	\$9,863	\$10,611	7.58%
130	0.18	28.13%	36,373	3,649	2	505	10	2910	8.00%	1455	33463	92.00%	66	11.9	24	\$9,032	\$9,917	9.80%
131	0.47	26.80%	29,357	3,466	20	328	8	15536	52.92%	777	13821	47.08%	42	19.8	?	\$8,346	\$8,748	4.82%
135	0.25	55.00%	16,345	1,774	3	215	9	6592	40.33%	2197	9753	59.67%	45	11.3	24	\$4,775	\$5,054	5.84%
136	0.52	67.00%	14,617	1,990	10	351	7	10133	69.32%	1013	4484	30.68%	13	6.6	6	\$5,434	\$6,310	16.12%
137	0.17	58.75%	28,301	3,135	1	433	9	1896	6.70%	1896	26405	93.30%	61	10.4	24	\$7,971	\$8,556	7.34%
138	0.99	41.00%	50,646	9,211	87	415	5	34951	69.01%	402	15695	30.99%	38	37.4	24	\$24,747	\$27,862	12.59%
139	0.38	47.37%	67,545	9,881	20	1065	7	18143	26.86%	907	49402	73.14%	46	17.6	24	\$22,200	\$24,630	10.95%
140	0.23	54.77%	29,942	3,337	3	502	9	3650	12.19%	1217	26292	87.81%	52	12.0	24	\$8,689	\$9,505	9.39%
141	0.44	67.63%	18,569	2,423	10	246	8	7186	38.70%	719	11383	61.30%	46	20.4	24	\$7,188	\$7,609	5.86%
142	0.39	59.00%	18,514	2,851	0	420	6	1559	8.42%	0	16955	91.58%	40	15.7	24	\$6,762	\$7,332	8.43%
143	0.27	52.20%	27,097	2,917	5	387	9	5376	19.84%	1075	21721	80.16%	56	15.2	24	\$8,168	\$8,764	7.30%
144	0.36	58.96%	56,521	6,189	31	1921	9	28933	51.19%	933	27588	48.81%	14	5.2	6	\$18,589	\$23,868	28.40%

Table B2: Additional data on entries 1 through 75 in Bradfield's Exhibit LB-1

Publication	Distribution	freq	Current Annual Postage	Proposed Annual Postage	% Postage Difference	Approx Circ	3-Dig Count	5-Dig Count	Cr Count	Firm Count	% On pallets	Avg Pcs Per Sack	% Dest Entry	Per Issue Current Postage	Per Issue New Postage	Avg. weight	Sack minimum
1	National	18	\$564,552	\$624,600	10.64	153,500	18,061	44,571	14,161	8,899	89	35	0.4	\$31,364	\$34,700	0.53	24
2	National	26	\$766,870	\$793,702	3.50	126,000	18,895	54,816	17,237	2,329	77	49	0.3	\$29,495	\$30,527	0.36	24
3	National	12	\$222,900	\$238,176	6.85	83,000	18,861	41,305	8,895	1,281	48	51	0.3	\$18,575	\$19,848	0.23	24
4	National	12	\$76,632	\$85,152	11.12	32,000	7,877	8,766	1,872	662	35	45	0.5	\$6,386	\$7,096	0.36	24
5	National	12	\$83,004	\$89,544	7.88	26,000	10,701	9,040	598	158	12	49	0.5	\$6,917	\$7,462	0.31	24
6	National	11	\$477,026	\$528,077	10.70	131,700	51,268	63,115	204	4,524	76	39	0.5	\$43,366	\$48,007	0.45	24
7	National	12	\$109,092	\$119,952	9.94	44,000	13,051	17,010	1,444	279	22	50	0.3	\$9,091	\$9,996	0.22	24
8	National	12	\$255,912	\$268,632	4.97	77,300	18,794	47,674	4,180	628	61	50	0.4	\$21,326	\$22,386	0.36	24
9	National	12	\$117,972	\$130,272	10.42	46,000	14,435	19,500	2,188	688	14	51	0.4	\$9,831	\$10,856	0.19	24
10	National	12	\$181,764	\$191,928	5.59	77,000	17,950	33,158	2,035	111	18	57	0.5	\$15,147	\$15,994	0.25	24
11	National	12	\$119,364	\$131,292	10.00	64,000	12,942	15,086	106	3,458	3	47	0.3	\$9,947	\$10,941	0.21	24
12	National	12	\$277,908	\$307,416	10.62	92,500	20,072	42,890	12,903	1,561	83	44	0.4	\$23,159	\$25,618	0.30	24
13	National	12	\$232,416	\$243,660	4.84	68,000	16,871	36,650	6,772	500	51	51	0.3	\$19,368	\$20,305	0.37	24
14	National	12	\$274,596	\$292,020	6.35	99,000	19,687	50,993	17,993	1,227	73	50	0.5	\$22,883	\$24,335	0.21	24
15	National	12	\$147,756	\$157,464	6.57	42,000	15,717	19,352	1,995	421	37	49	0.5	\$12,313	\$13,122	0.34	24
16	National	21	\$1,015,245	\$1,026,522	1.11	157,500	20,822	102,611	28,073	611	89	49	0.5	\$48,345	\$48,882	0.43	24
17	National	12	\$150,132	\$160,488	6.90	48,000	15,850	25,080	270	434	6	53	0.5	\$12,511	\$13,374	0.31	24
18	National	12	\$88,944	\$96,504	8.50	21,000	14,940	3,690	0	172	0	43	0.5	\$7,412	\$8,042	0.33	24
19	National	11	\$178,156	\$185,317	4.02	54,000	15,279	26,303	4,282	813	30	40	0.3	\$16,196	\$16,847	0.38	24
20	National	11	\$99,341	\$111,177	11.91	38,000	7,714	15,470	2,456	907	21	40	0.4	\$9,031	\$10,107	0.38	24
21	National	12	\$106,068	\$117,144	10.40	36,500	13,713	12,612	539	632	3	46	0.2	\$8,839	\$9,762	0.24	24
22	National	20	\$474,180	\$494,460	4.27	96,500	19,681	50,681	15,492	1,108	61	50	0.4	\$23,709	\$24,723	0.28	24
23	National	6	\$221,922	\$226,956	2.27	152,000	20,740	102,339	24,568	380	80	52	0.5	\$36,987	\$37,826	0.24	24
24	National	12	\$284,172	\$294,768	3.73	76,000	29,418	42,368	1,582	253	71	56	0.5	\$23,681	\$24,564	0.34	24
25	National	12	\$256,596	\$268,572	4.67	87,000	19,336	42,631	8,983	1,459	58	50	0.4	\$21,383	\$22,381	0.30	24
26	National	12	\$241,368	\$257,352	6.62	100,000	17,414	38,031	14,633	3,030	75	47	0.5	\$20,114	\$21,446	0.27	24
27	National	12	\$199,464	\$218,232	9.41	82,000	17,791	40,335	8,318	1,217	46	48	0.3	\$16,622	\$18,186	0.22	24
28	National	12	\$98,532	\$110,892	12.55	42,000	11,458	13,743	664	1,414	10	46	0.4	\$8,211	\$9,241	0.29	24
29	National	12	\$264,996	\$284,040	7.19	76,000	29,887	34,875	1,844	406	26	48	0.5	\$22,083	\$23,670	0.31	24

30	National	12	\$291,744	\$310,548	6.45	101,000	21,624	51,043	19,837	1,784	80	49	0.4	\$24,312	\$25,879	0.20	24
31	National	12	\$121,380	\$132,840	9.44	38,000	11,794	21,056	1,156	393	13	48	0.4	\$10,115	\$11,070	0.26	24
32	National	12	\$372,492	\$390,156	4.74	163,000	23,546	60,376	18,987	7,184	70	45	0.3	\$31,041	\$32,513	0.25	24
33	National	12	\$234,912	\$255,156	8.62	91,700	18,777	47,642	8,381	1,697	34	50	0.4	\$19,576	\$21,263	0.16	24
34	National	12	\$255,048	\$270,600	6.09	96,600	19,479	41,204	11,308	2,150	66	48	0.4	\$21,254	\$22,550	0.28	24
35	National	26	\$157,742	\$162,422	2.96	22,000	9,701	8,259	0	223	0	48	8.4	\$6,067	\$6,247	0.39	24
36	National	12	\$187,584	\$197,796	5.45	63,700	15,369	25,522	5,957	1,258	38	48	0.4	\$15,632	\$16,483	0.35	24
37	National	12	\$256,200	\$274,308	7.07	98,000	18,618	47,985	16,762	1,677	68	49	0.4	\$21,350	\$22,859	0.27	24
38	National	11	\$41,558	\$45,188	8.72	10,600	7,974	1,569	0	20	0	41	0.1	\$3,778	\$4,108	0.36	24
39	National	11	\$116,391	\$125,081	7.46	43,000	13,550	19,792	1,838	710	19	50	0.4	\$10,581	\$11,371	0.24	24
40	National	12	\$406,092	\$419,856	3.39	102,000	24,545	38,742	11,054	2,689	73	41	0.4	\$33,841	\$34,988	0.69	24
41	National	11	\$227,381	\$236,687	4.09	65,000	21,454	42,214	589	61	71	56	0.5	\$20,671	\$21,517	0.37	24
42	National	12	\$316,824	\$352,224	11.18	174,000	17,702	45,809	25,039	7,425	84	41	0.4	\$26,402	\$29,352	0.27	24
43	National	25	\$151,425	\$160,300	5.86	28,000	11,295	10,057	33	346	0	46	27.2	\$6,057	\$6,412	0.21	24
44	National	12	\$68,892	\$75,816	10.06	21,000	11,007	5,814	45	312	0	46	0.4	\$5,741	\$6,318	0.34	24
45	National	12	\$89,472	\$97,836	9.35	35,000	8,603	11,266	2,343	844	28	44	0.2	\$7,456	\$8,153	0.34	24
46	National	6	\$69,438	\$76,002	9.45	46,000	17,044	25,733	1,906	76	31	54	0.5	\$11,573	\$12,667	0.21	24
47	National	12	\$73,344	\$78,912	7.58	19,700	7,633	6,242	193	272	9	41	0.2	\$6,112	\$6,576	0.57	24
48	National	12	\$130,620	\$140,856	7.83	27,200	12,307	4,732	0	0	36	32	0.8	\$10,885	\$11,738	0.84	
49	National	51	\$212,262	\$222,564	4.87	17,600	8,133	3,154	858	96	0	29	39.3	\$4,162	\$4,364	0.29	20
50	National	266	\$563,388	\$594,244	5.48	7,000	4,455	1,844	0	0	0	38	16.7	\$2,118	\$2,234	0.20	20
51	National	12	\$320,268	\$344,520	7.57	55,000	20,956	20,099	1,329	19	66	30	0.1	\$26,689	\$28,710	1.14	20
52	National	20	\$147,640	\$164,460	11.39	18,000	13,157	2,001	405	132	27	25	0.2	\$7,382	\$8,223	0.67	20
53	National	51	\$228,990	\$242,964	6.11	16,000	9,131	2,210	914	197	0	27	32.9	\$4,490	\$4,764	0.33	20
54	National	51	\$294,168	\$312,018	6.08	26,000	12,165	5,150	0	112	13	29	26.5	\$5,768	\$6,118	0.35	20
55	National	12	\$195,348	\$211,944	8.50	37,000	28,571	3,358	563	0	45	28	0.3	\$16,279	\$17,662	0.77	20
56	National	51	\$26,673	\$27,693	3.89	2,200	869	329	0	0	0	27	47.9	\$523	\$543	0.22	20
57	National	51	\$268,668	\$249,441	(7.16)	17,000	9,556	4,298	112	7	0	36	43.4	\$5,268	\$4,891	0.55	20
58	National	12	\$135,228	\$176,484	30.51	31,300	16,569	7,110	0	0	0	31	0.7	\$11,269	\$14,707	0.73	6
59	Regional	12	\$26,256	\$27,816	5.91	8,300	1,984	5,644	288	0	69	72	0.0	\$2,188	\$2,318	0.21	24
60	Regional	12	\$28,176	\$28,836	2.35	8,700	2,959	5,202	0	1	0	80	0.0	\$2,348	\$2,403	0.22	24
61	Regional	12	\$34,692	\$34,572	(0.35)	10,800	3,696	5,766	98	5	39	145	0.6	\$2,891	\$2,881	0.31	24
62	Regional	12	\$20,412	\$20,772	1.74	6,300	2,288	3,667	0	1	0	71	0.1	\$1,701	\$1,731	0.24	24
63	Regional	12	\$39,540	\$40,500	2.42	11,600	4,899	6,206	49	2	28	78	0.0	\$3,295	\$3,375	0.23	24

64	Regional	12	\$29,088	\$29,856	2.65	8,800	3,075	5,214	26	2	0	79	0.0	\$2,424	\$2,488	0.25	24
65	Regional	12	\$21,960	\$21,264	(3.19)	7,000	2,625	3,748	187	1	78	55	6.0	\$1,830	\$1,772	0.25	24
66	Regional	12	\$39,072	\$41,412	5.97	10,500	2,280	7,562	255	2	69	63	0.0	\$3,256	\$3,451	0.32	24
67	Regional	12	\$33,276	\$35,100	5.48	10,400	2,280	7,525	292	2	89	68	0.0	\$2,773	\$2,925	0.22	24
68	Regional	12	\$24,156	\$24,936	3.23	7,300	1,861	4,608	431	1	34	68	0.1	\$2,013	\$2,078	0.24	24
69	Regional	12	\$23,340	\$25,128	7.65	7,000	1,929	4,607	153	4	86	64	0.0	\$1,945	\$2,094	0.26	24
70	National	12	\$178,980	\$214,800	20.01	40,500	11,325	24,736	2,204	340	77	18	0.3	\$14,915	\$17,900	0.53	12
71	National	12	\$187,116	\$229,704	22.76	49,500	11,891	30,894	2,418	515	78	17	0.3	\$15,593	\$19,142	0.43	12
72	National	12	\$101,412	\$125,400	23.65	21,800	11,356	7,980	457	89	36	19	0.3	\$8,451	\$10,450	0.55	12
73	National	24	\$962,784	\$1,297,608	34.78	160,000	49,933	39,170	4,846	701	29	16	0.0	\$40,116	\$54,067	0.38	12
74	National	24	\$815,592	\$1,134,384	39.09	88,000	49,149	14,260	571	320	21	14	0.3	\$33,983	\$47,266	0.42	12
75	National	24	\$247,656	\$348,888	40.88	39,000	110,088	19,252	4,773	439	14	19	0.3	\$10,319	\$14,537	0.27	12

Table C-1: Impact of Proposed Rates on ABM Publications, With And Without Zoned Editorial Rates

Publication no.	Editorial Content	Pounds per piece	Issues per year	Size (L, M, S)	Machine ?	Percent on Pallets	Bundles per Sack	Pieces per Sack	Zoned Editorial rates	Flat Editorial rates
99	50.00%	0.14	12	M	M	0.00%	1.08	12.45	82.41%	82.05%
134	50.00%	0.20	26	M	M	0.00%	1.12	12.76	69.25%	68.14%
116	50.00%	0.14	52	S	M	0.00%	1.29	14.30	55.02%	56.36%
74	48.50%	0.20	52	S	M	0.00%	1.23	15.29	47.94%	49.52%
153	100.00%	0.57	4	M	M	0.00%	1.18	14.64	67.28%	47.86%
144	50.00%	0.19	26	M	M	0.00%	1.04	16.76	46.94%	46.08%
52	34.10%	0.44	52	M	M	0.00%	1.40	14.69	41.35%	42.48%
89	100.00%	0.44	12	M	M	0.00%	1.13	18.79	61.44%	41.09%
151	50.00%	0.26	26	S	M	0.00%	1.15	15.65	39.31%	40.58%
132	50.29%	0.41	13	M	M	22.64%	1.41	13.66	41.02%	35.69%
107	50.00%	0.45	52	S	M	0.00%	1.63	15.30	30.02%	33.31%
117	45.00%	0.47	12	S	M	0.00%	1.14	15.18	37.23%	32.77%
128	50.00%	0.62	52	S	M	0.00%	1.51	13.70	28.30%	31.56%
9	50.00%	0.73	13	M	NM	20.08%	1.27	14.61	28.23%	30.79%
37	53.00%	0.53	12	M	M	32.20%	1.19	13.66	34.68%	29.09%
90	34.00%	0.82	52	S	M	0.00%	1.25	14.82	25.11%	27.14%
11	34.51%	0.83	47	M	M	0.00%	1.28	16.04	21.07%	23.54%
100	50.00%	0.55	52	M	M	62.46%	1.53	12.22	20.36%	22.71%
4	50.00%	0.40	12	M	M	46.47%	1.16	14.32	27.13%	21.84%
2	35.50%	0.83	52	M	M	0.00%	1.28	16.40	19.83%	21.74%
83	32.02%	1.77	12	M	NM	76.80%	3.36	20.99	21.93%	15.66%
39	56.86%	0.41	52	L	M	67.87%	1.10	13.16	11.50%	14.00%
104	40.00%	0.33	12	M	NM	50.66%	4.31	45.99	15.71%	10.93%
63	44.00%	1.55	12	M	NM	73.28%	1.64	12.74	18.86%	10.78%
80	37.27%	1.65	12	M	NM	85.94%	3.29	22.13	17.44%	9.91%
88	30.60%	0.29	18	M	NM	73.15%	4.21	55.02	9.95%	9.85%
59	42.00%	1.37	12	M	NM	69.95%	1.71	14.06	17.34%	9.82%
112	38.00%	0.41	13	M	NM	24.99%	4.25	43.53	12.46%	9.72%
78	35.15%	0.41	12	M	NM	41.24%	4.04	47.44	10.69%	9.65%
147	38.00%	0.86	29	M	NM	44.78%	3.69	37.39	7.59%	9.22%
73	34.39%	0.38	12	M	NM	79.53%	4.59	50.05	8.31%	8.39%
66	42.20%	0.66	12	M	M	47.23%	3.55	23.52	14.65%	8.16%
10	28.52%	0.78	12	M	NM	50.54%	3.78	38.01	8.51%	7.82%
22	30.84%	0.60	12	M	NM	86.60%	4.37	42.74	6.51%	7.63%
141	41.07%	1.10	19	M	M	65.68%	1.30	11.78	14.42%	7.52%
15	50.00%	2.80	1	S	NM	0.00%	2.17	11.92	13.25%	6.87%
75	38.00%	0.20	12	S	M	0.00%	4.46	41.11	7.57%	6.66%
70	27.04%	0.32	12	L	NM	87.32%	4.88	53.52	5.97%	6.59%
69	41.00%	0.47	12	L	NM	85.70%	4.77	50.99	6.14%	6.26%
77	50.30%	1.25	12	M	M	70.94%	1.49	12.66	16.66%	5.52%
111	38.00%	1.10	12	M	NM	53.84%	3.69	33.55	9.02%	5.28%
14	50.00%	2.13	1	S	NM	0.00%	2.67	17.50	12.06%	5.20%
95	40.83%	0.93	12	M	NM	89.94%	3.68	36.91	3.33%	5.15%
50	30.00%	1.68	12	M	NM	80.86%	3.02	23.30	5.19%	5.15%
48	31.56%	0.86	12	L	NM	88.05%	3.53	37.78	4.65%	4.87%
122	38.00%	0.64	12	L	NM	88.05%	10.20	34.35	3.10%	4.19%
120	38.00%	0.89	12	M	NM	79.24%	3.62	37.41	8.77%	4.09%
105	34.70%	1.11	12	M	NM	93.51%	3.81	33.13	2.05%	3.94%
142	38.00%	0.84	12	M	NM	84.00%	5.63	34.60	8.90%	3.74%
85	47.73%	0.24	12	S	M	0.00%	2.94	43.35	5.91%	3.26%
133	57.00%	0.21	12	M	M	0.00%	3.63	49.53	6.52%	2.88%

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49	67.61%	0.35	12	M	M	74.52%	4.42	52.19	8.91%	2.83%
57	68.40%	0.23	12	M	M	5.23%	4.12	49.07	7.29%	2.80%
138	42.40%	0.59	12	M	M	66.12%	5.25	41.51	8.73%	2.64%
8	50.00%	1.35	12	M	NM	52.75%	3.86	35.12	11.99%	2.42%
152	41.00%	0.58	12	M	M	84.16%	4.89	37.44	7.27%	2.29%
101	50.00%	0.46	24	M	M	19.85%	3.00	37.24	6.99%	2.28%
30	42.93%	0.91	15	M	M	86.66%	1.26	11.76	8.59%	2.12%
38	48.44%	0.40	52	L	M	89.92%	1.15	12.12	-0.42%	1.77%
121	42.70%	0.40	12	M	M	58.78%	5.99	45.22	5.04%	1.46%
29	44.66%	0.38	12	M	M	60.07%	5.26	52.82	4.15%	1.21%
106	68.09%	0.34	12	S	M	0.00%	6.74	44.62	7.04%	1.07%
25	44.71%	0.46	13	M	M	58.62%	4.88	49.44	6.42%	0.97%
51	54.90%	0.65	12	M	M	90.87%	3.21	36.18	5.90%	0.94%
46	39.50%	0.43	12	M	M	15.66%	4.67	41.22	4.46%	0.94%
86	76.00%	0.35	12	M	M	4.11%	8.66	49.77	9.17%	0.91%
24	62.69%	0.33	12	M	M	64.08%	4.75	55.82	8.21%	0.91%
43	38.60%	0.76	12	L	M	91.63%	5.21	34.72	6.31%	0.87%
60	64.95%	0.25	12	M	M	0.00%	4.21	51.22	5.29%	0.77%
118	49.30%	0.47	12	M	M	57.82%	5.37	49.58	7.36%	0.72%
103	50.00%	0.37	52	M	M	50.53%	3.22	38.65	1.78%	0.42%
127	38.00%	0.24	18	M	M	10.93%	4.56	60.36	2.05%	0.08%
96	59.71%	0.45	12	M	M	0.00%	4.35	47.09	8.80%	0.02%
154	38.00%	1.59	12	M	NM	88.11%	3.06	25.25	7.95%	0.00%
94	38.00%	0.29	13	S	M	0.00%	4.61	49.39	1.89%	-0.31%
71	35.97%	0.68	12	M	M	44.15%	3.94	45.09	4.84%	-0.36%
149	43.22%	0.38	12	M	M	42.19%	4.90	46.33	3.63%	-0.43%
36	35.40%	0.36	52	M	M	88.46%	2.66	33.31	-2.56%	-0.44%
53	38.00%	0.37	12	M	M	23.13%	5.06	45.93	2.80%	-0.54%
137	56.60%	0.31	12	M	M	30.36%	5.50	51.76	3.47%	-0.58%
62	38.00%	0.49	12	M	M	25.57%	4.71	48.69	1.24%	-0.65%
97	57.98%	0.37	12	M	M	39.97%	4.87	49.51	4.81%	-0.72%
148	39.50%	0.28	6	M	M	4.10%	5.29	52.46	2.00%	-0.88%
67	38.00%	0.48	12	M	M	50.63%	4.41	50.04	2.14%	-0.89%
102	40.00%	1.08	12	S	M	78.26%	5.21	38.40	8.47%	-0.90%
40	55.89%	0.24	12	S	M	22.96%	4.95	49.50	5.27%	-0.91%
32	63.79%	0.27	12	M	M	20.70%	4.69	58.57	5.01%	-0.99%
7	50.00%	0.22	52	L	M	92.72%	1.09	18.59	-1.06%	-1.03%
76	45.38%	0.52	9	S	M	0.00%	4.04	44.43	4.26%	-1.04%
139	34.60%	0.90	12	M	M	56.62%	4.76	37.34	6.51%	-1.05%
19	54.00%	0.28	12	M	M	11.02%	5.35	57.97	2.94%	-1.10%
16	45.23%	0.40	12	M	M	0.00%	4.35	53.97	3.16%	-1.23%
23	35.91%	0.49	12	M	M	35.16%	4.50	49.90	3.07%	-1.23%
131	60.24%	0.28	12	M	M	13.64%	5.63	57.62	5.05%	-1.34%
6	42.00%	0.37	18	M	M	28.83%	5.71	53.31	2.75%	-1.53%
130	38.00%	0.26	12	M	M	44.65%	4.10	52.21	0.60%	-1.55%
27	38.00%	0.32	12	M	M	30.21%	4.60	57.42	0.71%	-1.59%
58	49.18%	0.44	12	M	M	16.14%	4.99	50.35	4.04%	-1.66%
65	38.00%	0.75	13	M	M	56.99%	4.24	38.63	3.82%	-1.70%
150	38.00%	0.29	13	M	M	26.27%	4.61	58.79	-0.08%	-1.87%
140	54.00%	0.48	12	M	M	11.73%	5.00	43.14	4.99%	-1.91%
64	31.12%	0.65	26	M	M	65.52%	5.65	42.47	1.87%	-1.94%
68	55.00%	0.23	12	S	M	0.00%	4.46	59.93	0.65%	-2.04%
55	62.00%	0.68	12	M	M	28.40%	7.81	43.81	7.34%	-2.11%
42	38.00%	0.54	18	L	M	52.64%	4.68	43.14	0.85%	-2.19%
135	38.00%	0.35	12	M	M	34.03%	4.17	52.51	0.63%	-2.21%
31	38.00%	0.48	12	M	M	19.21%	4.34	45.84	-0.29%	-2.22%
108	50.00%	0.38	12	M	M	0.00%	4.11	50.08	3.17%	-2.26%
1	39.85%	0.44	12	M	M	26.45%	4.85	51.24	3.07%	-2.27%
54	38.00%	0.46	13	M	M	0.00%	5.11	45.70	0.83%	-2.28%
82	52.84%	0.41	12	M	M	10.05%	4.50	48.59	4.76%	-2.28%
28	38.00%	0.43	12	M	M	39.58%	4.50	51.18	0.38%	-2.45%

Exhibit C, P3 of 3

145	38.00%	0.35	12	M	M	84.53%	4.28	50.31	-4.14%	-2.49%
72	43.68%	1.00	12	M	M	0.00%	3.63	35.47	1.45%	-2.60%
26	38.00%	0.41	13	M	M	75.36%	4.76	56.67	-0.26%	-2.66%
125	56.30%	0.48	12	S	M	0.00%	4.27	44.14	2.54%	-2.69%
61	44.40%	0.43	12	M	M	11.18%	4.34	47.54	2.34%	-2.84%
56	62.65%	0.43	13	M	M	71.95%	4.22	51.18	3.62%	-2.84%
35	50.00%	0.34	52	M	M	92.15%	1.08	14.58	-7.92%	-2.95%
115	38.00%	0.86	13	M	M	60.58%	3.43	38.18	2.01%	-2.96%
91	38.12%	0.84	12	M	M	0.00%	3.67	38.36	2.54%	-2.96%
109	37.71%	0.71	12	M	M	0.00%	3.78	42.21	1.10%	-2.99%
123	38.00%	0.91	12	L	M	79.42%	3.74	35.99	1.81%	-3.11%
124	38.00%	0.41	12	M	M	63.48%	4.25	53.77	-0.28%	-3.12%
126	38.00%	0.40	19	L	M	55.61%	4.26	49.72	-0.86%	-3.19%
98	38.00%	0.59	12	M	M	84.51%	4.43	48.02	-0.06%	-3.26%
81	40.68%	0.91	12	M	M	56.96%	6.14	40.60	3.80%	-3.38%
17	63.28%	0.74	12	S	M	30.82%	5.88	42.09	7.38%	-3.39%
33	48.15%	0.57	52	M	M	88.61%	1.50	15.93	-8.15%	-3.47%
92	33.66%	0.96	10	M	M	0.00%	3.60	35.42	1.53%	-3.47%
84	38.00%	0.38	12	M	M	75.33%	4.23	53.13	-1.22%	-3.48%
12	38.00%	0.35	12	M	M	59.24%	4.07	52.55	-0.10%	-3.60%
143	38.00%	0.55	12	M	M	17.65%	4.12	44.53	0.56%	-3.64%
45	38.00%	0.53	26	L	M	64.45%	4.37	50.03	1.32%	-3.75%
47	38.00%	0.61	12	M	M	72.86%	3.96	45.37	2.05%	-3.79%
129	45.61%	0.43	12	M	M	77.06%	5.81	54.55	0.90%	-3.83%
93	38.00%	0.92	12	M	M	88.15%	3.51	37.53	2.05%	-4.00%
3	45.41%	0.57	13	M	M	49.65%	4.27	50.12	0.37%	-4.18%
87	38.00%	0.47	12	M	M	66.27%	8.05	44.44	-0.56%	-4.32%
5	39.07%	0.70	12	L	M	77.64%	4.40	44.38	0.41%	-4.37%
114	70.30%	0.92	13	M	M	19.06%	5.19	39.47	6.59%	-4.37%
41	50.00%	0.52	13	S	M	0.00%	4.77	46.05	0.93%	-4.45%
20	37.09%	0.56	12	M	M	3.10%	3.74	45.87	-1.11%	-4.86%
79	51.23%	0.55	12	M	M	71.78%	5.07	55.12	1.64%	-4.87%
44	43.10%	0.86	12	M	M	49.12%	4.72	44.87	0.13%	-5.30%
146	35.00%	0.43	52	M	M	0.00%	5.87	76.43	-7.48%	-5.31%
110	47.90%	0.87	12	S	M	20.81%	5.29	40.58	3.53%	-5.46%
18	38.00%	0.71	12	M	M	0.00%	3.66	40.68	-0.54%	-5.49%
21	38.00%	0.71	12	M	M	0.00%	3.66	40.68	-0.54%	-5.49%
119	44.00%	0.65	12	M	M	31.33%	4.10	48.86	0.39%	-5.97%
136	38.00%	0.78	14	M	M	21.32%	4.60	39.38	0.92%	-6.77%
34	50.00%	0.30	52	M	M	92.11%	1.04	15.10	-10.32%	-7.11%
113	12.24%	1.19	13	M	M	16.48%	6.02	37.09	-5.66%	-7.76%
13	50.00%	1.14	1	S	M	0.00%	5.00	48.00	-5.85%	-14.57%

1 CHAIRMAN OMAS: Mr. Straus?

2 CROSS-EXAMINATION

3 BY MR. STRAUS:

4 Q Hello, again.

5 A Hello, again.

6 Q At page 1 of your testimony, you describe on
7 lines 15 through 17 as a frequently repeated claim
8 that the rate structure proposed would have a severe
9 impact on many small and medium sized publications.

10 You've now looked at a lot of numbers from
11 ABM, from the Complainants, from the Postal Service.
12 You do agree, now, don't you, that without any change
13 in mailing practice that's a true statement?

14 A It's a true statement for many of them, yes.

15 Q So then what we're really discussing here,
16 if we're trying to avoid severe impact, is the extent
17 to which mailers can change and avoid that impact.

18 A Yes.

19 Q At the top of page 2, you describe, I guess,
20 ABM and others as opponents of reform, maybe opponents
21 of change would be better, but you say that these
22 opponents of reform have simply assumed the worst
23 possible scenarios will be the norm.

24 Can you tell me where in the testimony or
25 interrogatory responses of ABM that you can find the

1 assumption that the worst possible scenarios will be
2 the norm?

3 A Well, apart from the assumption that no one
4 can change, the --

5 Q Well, can I stop you there?

6 A You may.

7 Q Where do you find the assumption that no one
8 can change?

9 A Maybe I can just finish my answer?

10 Q Okay.

11 A Okay. Although I don't have all of the
12 testimony in front of me and I didn't have time to set
13 up my computer, actually, where I have all of them,
14 but there are several references, as I remember, to
15 the 80 percent increase that I believe would occur for
16 one publication. Or maybe there were two or three.
17 And so there is a certain number of publications that
18 would have increases in the double digits.

19 I identified almost all of those increases
20 as being directly related to the use of low volume
21 sacks, something that can be changed, even if a mailer
22 has no access to things like co-mailing or
23 co-palletization, et cetera. It's a decision that can
24 be made to change that.

25 Q Your answer went to a lot of places I didn't

1 ask. The question was where did the opponents assume
2 the worst possible scenarios. Is your answer only
3 that there were occasional references to --

4 A There were several references to the highest
5 possible increases.

6 Q All right. ABM's --

7 A Which are not typical because most of the
8 small and medium sized publications do not use these
9 very low volume sacks and therefore would have either
10 moderate increases or no increases.

11 Q Ms. Bradfield produced Exhibit LB-1, a
12 subject of some controversy, that showed a range of
13 impacts. Is that right?

14 A That's right.

15 Q Do you know of any other impact data
16 produced by ABM?

17 A That was, I believe, the only impact data
18 that was produced by ABM and that was referred to in
19 several places.

20 Q Okay. Now, you accuse ABM here of assuming
21 the worst possible scenario. Elsewhere in your
22 testimony, we'll get there, you accuse us of proposing
23 no change. You just said in your answer to me, the
24 first answer where I interrupted you, for which
25 I apologize, the assumption of no change.

1 Mr. Bradfield, at page 6 of his testimony,
2 he says, "The numbers do assume no change in mailing
3 practice and there is no doubt that for some of these
4 publications the increase in postage costs can be
5 ameliorated or, in certain cases, perhaps even
6 reversed, if mailers take such steps as increasing
7 sack size, co-mailing or co-palletizing."

8 Sounds like those words could have --

9 MR. KEEGAN: Mr. Chairman, may I provide the
10 witness with a copy of that testimony?

11 MR. STRAUS: You may.

12 THE WITNESS: Yes. I just read that passage
13 from Mr. Bradfield yesterday.

14 BY MR. STRAUS:

15 Q Do you think it's fair to paint ABM as an
16 opponent of any change or assuming the worst or giving
17 no consideration to the fact that mailers can change
18 in light of that comment?

19 A Well, I understand ABM is opposed to the
20 changes proposed in this case, are they not?

21 Q And where do you get that information from?

22 A Well, the idea that ABM is opposed to the
23 changes that are being proposed? Aren't all of the
24 testimonies arguing against the changes that are being
25 proposed in this case? Weren't all of your testimony

1 filed in rebuttal of our direct proposal? Of course,
2 if ABM is not opposed to the case, then I'm not sure
3 why I'm here, if I'm rebutting that position.

4 Q Well, there's a difference between
5 supporting everything and supporting nothing, or being
6 totally opposed to all change and being totally
7 agreeable to any change.

8 Let's continue in this vein with page 28 of
9 your testimony, footnote 26.

10 A Of my testimony?

11 Q Your testimony. Page 28, footnote 26.

12 A And the footnote?

13 Q Yes. You say that Bradfield gives certain
14 reasons, your words, "reasons for doing nothing."

15 At page 31, you say that, "They argue,"
16 meaning ABM and some others, "that nothing should be
17 done until that future has arrived."

18 It may be popular these days to paint people
19 with extremist brushes, but let me refer you to page
20 10 of Mr. Bradfield's testimony. Do you have that?

21 A Yes, I do have it here.

22 Q I'll read to you beginning at line 4.
23 "I said earlier that American Business Media and I are
24 not opposed to serious study and consideration of
25 measured changes that are likely to produce lower

1 postal service processing costs without imposing undue
2 hardship upon a segment of the periodicals class."

3 Don't you think it's unfair to characterize
4 Mr. Bradfield as supporting nothing, opposing
5 everything?

6 A He says he's in favor of studies and
7 measured changes. What we are proposing in this case
8 are far more radical changes that are far more likely
9 to have a real impact on mail processing costs.

10 Q I'll repeat the question.

11 A You're asking whether I was -- maybe I'm
12 being unfair to Mr. Bradfield.

13 Q Engaging in hyperbole, perhaps.

14 A Yes.

15 Q Going back to your testimony, page 2, the
16 paragraph that begins on page 12, you discussed that
17 you analyzed groups of publications and it became
18 clear that the use of low volume sacks is the primary
19 driver of rate increases under the proposal.

20 A Predominant.

21 Q Okay. Wasn't this clear to you? Did you
22 really need to analyze any data? Didn't you
23 understand right from the beginning that if you impose
24 sack charges of up to \$3.00 that pieces per sack is
25 going to be the absolute key to the impact of these

1 rates?

2 A Not to the extent that turned out to be the
3 case. I was actually surprised both by analyzing
4 Tank's data which was drawn from a much wider base,
5 and the ABM data of the extent to which the practice
6 of using low volume sacks appears to extend, not only
7 to so-called time sensitive publications, but to
8 publications of lower frequency, even a quarterly
9 I found as using low volume sacks. So the extent to
10 which this practice exists and the fact that it's so
11 dominant is the main reason why Mr. Bradfield was able
12 to have 80 percent, 65 percent, whatever increases.
13 It's all directly related to use of low volume sacks.

14 If you take away the use of low volume
15 sacks, you have a few increases in the 20 percent
16 range. Actually, I don't think you have anything over
17 20. You have mostly very low impact, if you take away
18 the use of low volume sacks. You have also some
19 impact on non-machinability.

20 Q Let me ask you the same question I asked
21 Mr. O'Brien about actually comparing a before and
22 after on individual publications instead of just
23 taking some publications that are at 6 and some at 24.

24 Do you agree that that's a task you could
25 not have performed?

1 A It would have been very difficult to perform
2 and we would have needed more information from you,
3 which we didn't even venture to ask on the
4 anticipation that you will have trouble providing it.

5 I don't think Time Warner would provide that
6 kind of information.

7 Q Is it any different from the kind of
8 information that's necessary to go from sacks to
9 co-palletizing?

10 A To go from sacks to co-palletizing?

11 Q Yes.

12 A As I understand it, when you go from
13 co-palletizing -- I am not really an expert on that
14 process. The co-palletizer would receive the data
15 from the individual publishers and create a new
16 mailing file, a new mail or dat file that instructs
17 how the bundles should be combined.

18 Q Did you run impact numbers on any
19 publications before the complaint was filed?

20 A You mean ABM publications?

21 Q Any publications.

22 A Before the complaint was filed, we started
23 to run some impact on Time Warner publications, about
24 the time when the case was filed.

25 Q So when the case was filed, you hadn't

1 completed analyzing the impact of your proposal on any
2 publications, including Time Warner?

3 A We analyzed the impact on a few Time Warner
4 publications. We were just figuring out how to do it.

5 Q And so would it be fair, then that Time
6 Warner -- well, is it your understanding that the
7 impetus for this complaint was Time Warner and then it
8 garnered the support of the other four complainants?

9 A I wasn't privy to all the negotiations that
10 went on with the other complainants. That's
11 definitely something you should have asked
12 Mr. O'Brien, but I understand that Time Warner was the
13 one that took the initiative, yes.

14 Q And the other four, then, joined the
15 complaint and you never provided them with any
16 calculation of the impact of the proposal on them
17 before they decided to join the complaint?

18 A I provided them or some of them with this
19 impact after ABM had requested it.

20 Q But not before they joined the complaint?

21 A No.

22 Q Okay. So would it be correct that other
23 than what the impact data you calculated before the
24 complaint on a few Time Warner publications, it was
25 not until the ABM interrogatory that you calculated

1 the impact on all of the complainants' publications?

2 A That is correct.

3 Q Did you see the answers to interrogatories
4 submitted by U.S. News and World Report?

5 A I saw them. I don't remember exactly what
6 they said, but they described various things they
7 could do, I believe, or that they would do.

8 Q They also indicated that they use a 24-piece
9 sack minimum, except for ADC sacks, where it's six.
10 Why in your experience would a publisher use a smaller
11 sack minimum at the ADC level

12 A I don't really know that. I think ADC sacks
13 may not -- I don't know why they would do that. One
14 problem, of course, with the current scheme that the
15 Postal Service uses is there are a lot of ADCs, there
16 are 90 of them all together, and I could see many
17 reasons why there should be fewer because some of
18 those ADCs are fairly small and they may not be able
19 to fill up sacks with any more pieces to some of them.

20 Q Or they could use a mixed ADC sack.

21 A They could. And it may be they should.

22 Q Do you know of publishers that avoid using
23 mixed ADC sacks?

24 A Yes. I think many publishers avoid using
25 mixed ADC sacks.

1 Q Why?

2 A I don't know. I think actually it's a bad
3 idea to avoid mixed ADC sacks. I think it's because
4 of a perception that somehow that would delay the
5 mail.

6 Q If a mailer has --

7 A There is, by the way, a part in my testimony
8 where, according to my analysis, bundles submitted in
9 mixed ADC sacks would, if anything, have a better
10 chance of being delivered on time than if they were
11 submitted in ADC sacks because being submitted in ADC
12 sacks just requires additional sack sorting.

13 Q But despite that theory, you know of
14 publishers who presumably spend extra money at a
15 printing plant in order to create small ADC sacks.

16 A Yes. As I also point out in my testimony,
17 there is a widespread perception that has never been
18 confirmed by any kind of systematic study that sacks
19 with higher pre-sorting lower volume tend to get
20 delivered faster.

21 Q In first full paragraph of page 3 of your
22 testimony, you address machinability and basically say
23 if someone produces a periodical that's not machinable
24 that's within their control and they should pay the
25 additional cost. Is that correct?

1 A Where was that reference again?

2 Q Page 3, lines 8 through 18.

3 A Yes, I did say that. Yes.

4 Q Is it your view that the Postal Service
5 should in general produce equipment that processes the
6 mail that the mailers wish to mail rather than that
7 the mailer should produce mail that the Postal Service
8 wants to handle?

9 A Yes, of course, the Postal Service should
10 consider its customers, but I think they have to make
11 some tradeoffs in terms of what is considered most
12 efficient. I think they designed the AFSM-100 to be a
13 machine that could handle the majority of flats, but
14 there are certain out sizes that it cannot handle.

15 Q And so it would be your suggestion that in
16 many cases a mailer could avoid the non-machineable
17 portion of your rate by changing the format and
18 becoming machinable?

19 A Whether he could do that or not, he may have
20 all kinds of constraints or reasons why he wants his
21 magazine or publication to be in a particular format.
22 Maybe his readers are used to it or maybe he has other
23 reasons, but by choosing a non-machinable format he is
24 imposing additional costs on the Postal Service which
25 currently he is not paying for.

1 Q Is it your understanding that the equipment
2 that would be used in an FSS or DPS environment would
3 have greater capabilities in terms of tolerances than
4 the AFSM-100?

5 A I have heard some people in the Postal
6 Service say that that is what they hope to achieve.

7 Q If that were the case, then, it might --

8 A At least I have heard that with regard to
9 the delivery point packaging. They hope to find a
10 machine that can handle a wider group of flats and the
11 flats that cannot be handled that way would then be
12 redefined as partials and cost much more than they
13 currently cost.

14 Q Given that possibility, wouldn't a publisher
15 want to think twice before changing formats in 2006 to
16 meet your rate proposal, only to find that in 2008 the
17 original format would have been just fine?

18 A Under our proposal, the final decisions as
19 to how to define machinability would be up to the
20 Postal Service and not the complainants. I simply
21 used the definitions of machinability that exist in
22 the current DMM.

23 Now, it may be the definitions of
24 machinability would be somewhat changed. In fact,
25 I am referring to one thing I should change, which is

1 the 20-ounce limit on the size of a publication
2 because they do in fact already sort of the AFSM-100
3 considerably heavier magazines than that, almost twice
4 as heavy.

5 Q In all locations?

6 A I couldn't tell about all locations, but
7 where I have been able to see it, they do sort heavier
8 magazines. My impression is generally that most
9 postal facilities try to sort as many flats as they
10 can on the AFSM-100. In other words, they try to sort
11 of extend the limit a little bit, but the limitations
12 on the length and width of the magazines are absolute,
13 I believe.

14 Q Do you know of instances where postal
15 employees have tried to sort non-machinable poly on an
16 AFSM-100?

17 A I have actually observed that. Actually,
18 the instance I am referring to is they sorted poly
19 that was marked as UFSM-1000 approved. In other
20 words, it was poly that was approved for the FSM-1000
21 and not for the AFSM-100 and they ran it through the
22 AFSM-100 and it worked fine.

23 Q Do you know of examples where postal workers
24 have not run AFSM-100 compatible stock on the
25 AFSM-100?

1 A Could you say this again?

2 Q Well, we just discussed the fact that
3 sometimes --

4 A They try to extend the limit.

5 Q Sometimes stuff that at least technically is
6 not supposed to be run on the 100 is. Do you know of
7 instances where stuff that should be run on the 100 or
8 theoretically can be is not?

9 A Well, for one thing, there's two answers to
10 that. I think one is the decision as to what to run
11 and what not to run on the FSM-100 is made by the
12 operators and their supervisors and so that decision
13 making may be somewhat different in different places.

14 Additionally, not if we're talking about
15 incoming secondary sorting, sorting from -- to carrier
16 routes. They do not use the machines for all --
17 zones. There are some smaller zones that they will
18 still sort manually.

19 Q What rate would you apply if it's
20 technically machinable but isn't machined?

21 A Based on our model, we averaged that out
22 because it's a fairly small volume that will bypass
23 the machines for that reason.

24 Q But you're proposing charging the machinable
25 rate in all cases?

1 A It would be possible, maybe, to define a
2 rate structure that is destination-specific. In other
3 words, that it would cost different depending on
4 exactly which destination you're going to. We're not
5 proposing that because it would be much too
6 complicated.

7 Q And by the same token, if some -- let's say
8 that the 20-ounce limit goes up to 26 ounces, if some
9 facilities machine a 28-ounce piece and some don't,
10 you wouldn't propose charging different rates
11 depending upon --

12 A Again, the criteria as to what is machinable
13 has ultimately to be decided by the Postal Service.
14 The Postal Service should, in my opinion, have
15 instructions that are in conformance with actual
16 practice and, in the case of the 20-ounce limit, their
17 instructions are not in conformance with practice, I
18 think.

19 Q Did you develop a version of the proposed
20 rates for the flat editorial rate as an alternative
21 proposal or as an analytical tool to estimate the
22 impact of the --

23 A For one thing --

24 MR. STRAUS: Mr. Chairman, could the witness
25 be asked to let me finish my question?

1 THE WITNESS: I'm sorry.

2 MR. STRAUS: I'm not offended, but I think
3 the record will be messed up.

4 CHAIRMAN OMAS: Okay. Thank you.

5 THE WITNESS: I'm sorry.

6 BY MR. STRAUS:

7 Q Did you develop it as an alternative
8 proposal or as an analytical tool to determine how
9 much of the impact of your proposal is derived from
10 various features?

11 A The latter.

12 Q Please look at page 5, lines 8 through 11,
13 the sentence beginning for example.

14 A Did you say page 5?

15 Q Yes.

16 A Okay. Yes.

17 Q You say that many small and medium sized
18 publications, including more than half of those ABM
19 publications you analyzed would have lower postage if
20 only the first set of changes were implemented, and
21 that is the package rates that were proposed --

22 A The charges for bundles and sacks and
23 pallets. Yes.

24 Q Is it your expectation that if ABM had only
25 known that it would be supporting that change?

1 A Not at all.

2 Q Do you understand that --

3 A Because we are also proposing the zoned
4 editorial rates.

5 Q Well, if you were not proposing the zoned
6 editorial rates, do you think that an association with
7 1500 publication members should take sort of the
8 average effect and develop its position based on the
9 average or should it be concerned with the extremes as
10 well?

11 A I don't know what ABM should and should not
12 do. Obviously, they would all have to get together
13 and decide what they want to do. What I have shown
14 is, first of all, that under that particular scenario
15 a little more than half of the ABM publications would
16 in fact experience lower postage. At the same time,
17 there will be a very high end -- there will be smaller
18 groups of publications with very high increases,
19 almost of all which can be traced directly to the use
20 of low volume sacks and, in some cases, to the use of
21 a non-machinable format. And so even under that
22 scenario, obviously, for ABM members overall to
23 benefit, many of them, at least, would need to
24 consider some changes in their mailing practices and
25 I did not at all expect that ABM would say that, oh,

1 yes, we want this but not the zoned editorial rates.

2 Q The analysis of the analytical alternative
3 with retaining the flat editorial rate, did you
4 analyze the impact of that approach on Time Warner's
5 publications or the other complainants' publications?

6 A I did in fact do that for Time Warner's
7 publications. I did not do it for the other
8 complainants.

9 Q But you chose not to introduce the impact on
10 Time Warner's publications?

11 A I am not sure what kind of relevance that
12 would have. I am talking here mainly about the impact
13 on small publications, those that it has been alleged
14 would be seriously hurt by the proposed rates.

15 Q Don't you think it would be of use to know
16 how much of the rate benefit, for those that have been
17 suffering so long from --

18 A Well, I can tell you, as far as Time Warner
19 is concerned, about 60 percent of the 23 million that
20 are being thrown around would result from changes
21 other than the zoning of editorial rates. I did not
22 think that would be of particular interest relative to
23 what I am discussing in my testimony.

24 Q The testimony on page 6 about what I've
25 called, because I don't understand this, an access

1 file for calculating impact using the mail.dat file.

2 Do you know what I'm talking about?

3 A Yes. Right.

4 Q You say you've developed a simple tool to
5 analyze the impact. Isn't it true that Time Warner
6 had to distribute more than one version of that tool
7 before it operated properly?

8 A I think it was something that was under
9 development at that time and I don't remember the
10 exact sequence of events. Mainly, what I recall was
11 having to do some more explanation.

12 Q When did you develop the even simpler tool
13 that you made available to NNA?

14 A It was some time in the spring. I do not
15 remember exactly.

16 Q Witness Tang distinguishes in her numbers
17 between high and low density. Do you recall what her
18 cut-off point was?

19 A They were 15,000 on the low side and
20 I believe 100,000.

21 Q That's small and medium or medium and large?

22 A Between small and medium.

23 Q I'm talking about the high density and low
24 density.

25 A I think it's the ones that had a majority of

1 five digit and carrier routes. I don't remember the
2 exact percentage.

3 Q Do you recall whether you agreed or
4 disagreed with her characterization of high density
5 and low density?

6 A I don't really have a position on that,
7 that's how she defined it, but generally I believe if
8 you have a small publication that is predominantly
9 five digits then it might be a high density
10 publication.

11 Q Please look at the bottom of page 12 to the
12 top of page 13.

13 THE WITNESS: Yes.

14 BY MR. STRAUS:

15 Q How do you know whether the publications
16 you're discussing are not particularly time sensitive?

17 A By the frequency of publication. I assume
18 that the monthly publication is not particularly time
19 sensitive. It would not be considered time sensitive
20 by the Postal Service. When the Postal Service talks
21 about time sensitive they mean daily or weekly.
22 That's what I'm referring to.

23 Q I beg to differ because you're not here
24 discussing the Postal Service's labels, you're
25 discussing whether people should care a whole lot

1 about service, and you say they're not time sensitive.

2 Is there a difference in time sensitivity
3 between a business to business monthly that covers
4 news in an industry and a consumer monthly that might
5 present, like Better Homes and Gardens that has
6 recipes and pictures of houses?

7 A Well, I guess that all depends on what
8 you're interested in.

9 Q Come on, now. You would agree, wouldn't
10 you, that a magazine that covers news in an industry
11 is more time sensitive than a magazine that has
12 pictures of beautiful houses?

13 A I don't think so. If you're talking to
14 businessmen you really need information fast. They're
15 not going to wait for a magazine. They're going to go
16 to the Internet and find it. If it's a monthly
17 publication, I don't believe that's particularly time
18 sensitive. Again, it may be very time sensitive to
19 the people who own that particular magazine and they
20 may decide to use low volume sacks in the anticipation
21 that that will get the mail there faster. They may be
22 kidding themselves, and with the proposed rates they
23 would also be paying more.

24 Q Many years ago I represented a periodical
25 title which was Maine Antiques Digest and went to the

1 Court of Appeals ultimately. Maine Antiques Digest
2 was arguing that, this was in the days of red tag
3 differentials, that it was unfair for magazines, for
4 weeklies and for two that weren't weeklies, Fortune
5 and Forbes, to get red tag service when it did not.

6 Maine Antiques Digest is hundreds of pages
7 long. It contains news of auctions in the antique
8 business, of sales in the antique business. It
9 contains advertisements for date-specific auctions,
10 shows, items like that.

11 Would you think that just because it's
12 monthly it isn't time sensitive even though it carries
13 time sensitive information?

14 A Well, I'm not sure how one should define
15 time sensitive. I told you my definition which was I
16 considered a weekly publication time sensitive for the
17 purpose of my discussion.

18 If a monthly publication is considered time
19 sensitive I'd also publish it. They will make
20 decisions accordingly.

21 What we are proposing is they should pay for
22 the decisions they make. They should bear the
23 consequences of those decisions. If you think your
24 magazine is more important than somebody else's
25 magazine -- You have to make a tradeoff then.

1 Q Maybe I misread your testimony. I thought
2 you were saying that -- Whether mailers are right or
3 wrong, that smaller sacks help service. Any claim
4 that is even based on service are specious because
5 monthlies can't be time sensitive anyway. Is that
6 what you were saying? Or were you saying less than
7 that?

8 A I was saying a lot less than that. I think
9 I was saying a lot less than that. I am only pointing
10 out that the use of low volume sacks is not limited to
11 weekly and daily publications. It's used by
12 monthlies, even a quarterly in one case that I found.

13 Q To the extent that there are weeklies
14 engaging in it then this paragraph is inapplicable.
15 You were only talking about the monthlies here?

16 A I'm not sure if the weekly publications have
17 been helped by the use of low volume sacks, either.

18 Q That wasn't the question. The question is
19 your assertion that since monthlies aren't time
20 sensitive, even if they're right about small sacks
21 there's no reason to use them. That wouldn't apply to
22 weeklies.

23 A No, actually it would apply to weeklies,
24 too.

25 Q Even if they're right about -- I'm asking

1 what --

2 A Why don't you state your question carefully?

3 Q I'm asking you to assume that a mailer
4 legitimately believes that in certain circumstances
5 small sacks provide better service.

6 A Okay. You really believe it.

7 Q And it's true. Assume it's true.

8 A Okay, I will assume it's true.

9 Q This testimony, I believe, that you offer
10 here on page 12 and 13 is saying for monthlies, even
11 if it's true, since they're not time sensitive they
12 shouldn't be in skin sacks. My question is for a
13 weekly, even if it's true, then they may have some
14 reason.

15 A No, I'm not saying that at all. All this
16 proposal says is you decide to use low volume sacks
17 you should pay for it. The decision is up to the
18 mailer. The mailer should be faced with the
19 consequences of the decisions he makes. Like if he
20 decides to airlift, which I know some publications do,
21 then he pays for it.

22 Q If all you're saying in this carry-over
23 paragraph is that you do not get better service with
24 skin sacks so you shouldn't be doing it --

25 A I don't think I'm saying it in that

1 paragraph. I'm saying it elsewhere.

2 Q Why the reference to the not particularly
3 time sensitive in this paragraph? What difference
4 does the time sensitivity make, the statement you're
5 making, carrying over from pages 12 to 13?

6 A I'm just pointing out that the practice
7 extends to monthly publications and even less
8 frequently. Even less frequent publications.

9 Q Please look at Exhibit LV-1.

10 A Say that again. Are you referring to my
11 exhibit or --

12 Q No. I'll add to that in a second. My note
13 as wrong.

14 Here we go, Table 1A, your Table 1A.

15 A I believe you mean Table A1.

16 Q Yes, I do. Now that I've found the table
17 I've lost the question.

18 I direct your attention to Publication No.
19 160.

20 A I have it.

21 Q It's the tenth item down. This is a 98
22 percent editorial publication, half a pound.

23 A Correct.

24 Q Weekly, so it's got time value. Machinable.
25 It has 28 pieces per sack so it's not a real scofflaw

1 in that regard. And with your proposal it would have
2 a 16.12 percent rate increase. Is that right?

3 A When you refer to my proposal, under the
4 proposed rates it would have an 11.99 percent rate
5 increase which is in the second to last column.

6 Q I'm sorry. It would have a 12 percent rate
7 increase.

8 Throughout yours and Mr. O'Brien's testimony
9 there are discussions of people with very small
10 increases -- Is a 12 percent increase something the
11 Commission ought to be concerned about as being, when
12 it considers fairness and impact? Or do you consider
13 12 percent to be more de minimis?

14 A I do not know what the Commission should
15 call fair or not. I think what the Commission should
16 pay attention to is the fact that many of these large
17 increases, I don't know about this particular one. I'd
18 have to go and look at more detailed information about
19 that, but many of these very large increases are not
20 inevitable. There are things that even the very small
21 publications could do to avoid it.

22 Q I'm just trying to pin you down a little
23 bit.

24 A You're trying to pin me down and I'm not
25 going to let you. I don't know what the Commission

1 should consider fair and not fair.

2 Q You just used the words large increases.
3 What to you is a large increase and what to you is an
4 increase that is sufficiently small to be acceptable?

5 A I don't think there is any absolute scale of
6 large and small. There is larger and smaller. This
7 is one of the larger increases. It's one of the --
8 It's in the top end of the table so it's one of the
9 larger increase among these particularly low density
10 publications. It's one of the higher, examples of a
11 higher increase rather than a lower increase.

12 Q Please look at the, I'm going to ask you
13 about the paragraph that begins on line 23 of page 13,
14 and it carries over to --

15 A Which page?

16 Q Thirteen.

17 A Okay.

18 Q You say that witness Cavnar for ABM claims
19 he was not surprised when presented with, and I quote,
20 "the above facts."

21 What facts exactly are you talking about
22 that Cavnar indicated were not surprising?

23 A I believe the interrogatory to Cavnar's
24 statement that the impact -- Well, they first of all
25 referred to the DMM and which he said he was somewhat

1 familiar with. Then the question to him was --

2 Q Would you like me to give you the question
3 and answer?

4 A The question and answer was about the fact
5 that, and it is a fact, that almost all of the large
6 increases are directly related to the use of low
7 volume sacks which would not be permitted under
8 standard rates.

9 Q Let me read you the part E of the question
10 to which his answer --

11 "Would it surprise you if a detailed
12 analysis were to show that practically all of the
13 periodicals whose postage would increase by 20 percent
14 or more under the proposed rates are entered in sacks
15 that contain far less than the minimum that would be
16 required if they were mailed under standard rates?"

17 His answer, "No, that would not surprise
18 me."

19 So what would not surprise him is that if an
20 analysis were to show that particular relationship.

21 So now I'll ask you again --

22 A That is what my analysis shows, though,
23 which I described in the rest of this testimony.

24 Q But isn't your statement here far too broad
25 to say that Mr. Cavnar claims he was not surprised

1 when presented with the "above facts" with an S? You
2 have a bunch of alleged facts in here. The only think
3 he said he would not be surprised about is if an
4 analysis showed that increases of 20 percent or more
5 are associated with --

6 A That is what I'm referring to and that is
7 what my analysis shows.

8 Q Again, you might think this is a small
9 detail, but I think, again, we have a bit of an
10 accuracy problem.

11 Page 14, lines 12-14 you say, "However ABM
12 counsel has argued that the older files he did provide
13 are also representative of ABM publications today."

14 A And you're saying you do not agree?

15 Q Well we -- Let me find it.

16 A I believe there was in fact a promise that
17 you wouldn't challenge the use of all the data since
18 that's all you provided.

19 Q That's not what I'm talking about, though.

20 The statement is, "For its part American
21 Business Media will not contend that the general
22 results of such an inquiry by Complainants are not
23 relevant or material based on the age of the files
24 which are --"

25 MR. KEEGAN: Mr. Chairman, may I ask what

1 document Mr. Straus is reading from?

2 MR. STRAUS: The document that's cited in
3 the footnote to Mr. Stralberg's testimony.

4 MR. KEEGAN: May I ask could Mr. Straus
5 provide a copy of that to the witness and to counsel?

6 MR. STRAUS: I only have one copy so I'll
7 have to -- Let me start all over.

8 BY MR. STRAUS:

9 Q I suggest to you that the statement by ABM
10 was not that the data are representative of "ABM
11 publications today" but only of certain types of
12 publications today.

13 MR. KEEGAN: Mr. Chairman, I object to this
14 line of questioning as long as the witness does not
15 have a copy of the statement.

16 MR. STRAUS: I didn't ask him anything yet.

17 MR. KEEGAN: You were suggesting to him what
18 it meant.

19 BY MR. STRAUS:

20 Q Mr. Stralberg, my only problem with your
21 testimony is you say that ABM said it was
22 characteristic of ABM publications today. Would your
23 testimony be any different if the statement by ABM
24 were only that the data are representative of
25 publications today, without the ABM modifier in it?

1 A It sounds to me like you're suggesting
2 something more general when you say representative
3 of publications today. Do you mean all publications
4 or --

5 Q The statement that I'd like to show you when
6 your counsel is done is certain publications. It
7 doesn't say ABM publications.

8 A I think whatever statement you want to make
9 about that, I'm just here giving a brief history of
10 what's happened and why I only have the older files.

11 Q I'm suggesting your history --

12 A So you may want to get some other
13 explanations of what you now think of those older
14 files and what they're representative of.

15 We know what they represent. They represent
16 ABM as of year 2001 and there aren't a lot of changes
17 since then I understand.

18 Q I'm just suggesting that your recitation of
19 the history has a very small inaccuracy that I don't
20 think makes any difference, but I don't want to be
21 surprised if somebody suggests later it makes a
22 difference.

23 A I now have in front of me your response.

24 Q Excuse me?

25 A I have in front of me your response.

1 Q Do you see anywhere that ABM said that the
2 data are representative of ABM publications today, or
3 was the representation that the data are
4 representative of certain publications today?

5 A Uh --

6 Q You cited this response.

7 A I'm sorry, this is a very long response and
8 I do not see exactly the words you're saying now.

9 Q Your footnote is to page nine.

10 A Yes, I know.

11 MR. KEEGAN: Is that page nine you're
12 looking at, Mr. Stralberg?

13 THE WITNESS: I think --

14 MR. KEEGAN: -- looking at? Can you tell me
15 the number of the page you are now looking at?

16 THE WITNESS: I am now looking at page ten.

17 MR. KEEGAN: Thank you. The reference was
18 to page nine, Mr. Straus.

19 BY MR. STRAUS:

20 Q Where on page nine can you support the
21 statement that you cite to page nine?

22 A It says here, referring to "Time Warner
23 consultants can manipulate those data to their heart's
24 content", et cetera, et cetera. It already has the
25 representative sample it seeks, a fact that would

1 escape anyone reading the motion.

2 Then you go on to say, "Although the --
3 provided by American Business Media are several years
4 old and may not in all cases be representative of the
5 way every one of those publications is now mailed,
6 they are no doubt the -- as a general matter of
7 publications like those included."

8 Q Thank you. I think we're beating a dead
9 horse here. I'll move on.

10 Please look at page 15, line 22 and tell me
11 why you were surprised that 62 percent of the pieces
12 in the ABMmail.dat files were entered on pallet.

13 A I thought ABM publications didn't use
14 pallets that much. I thought they were not able to
15 palletize, so 62 percent surprised me.

16 Q You heard they were not able to palletize?

17 A Over years, many years, I have heard they
18 were not able to palletize.

19 Q Maybe many years ago.

20 A Many years ago.

21 Q You had, in the 155 mail.dat files -- I
22 forget what the exact number was. But in the mail.dat
23 files that we did provide for 2001 you had the names
24 of the titles in those files, did you not?

25 A I did.

1 Q And you had the names of the titles for the
2 periodicals in Exhibit LV-1, is that correct?

3 A In Exhibit LV-1 I do not think I had those
4 names.

5 Q You may be right.

6 A They were publications numbers 1 through
7 144.

8 Q If the mailer has four pieces to a five
9 digit zip code, is that mailer permitted to create a
10 four piece sack?

11 A Normally not, I believe. That would be part
12 of a three digit.

13 Q How do we wind up with sacks with fewer than
14 six pieces?

15 A I believe there are exceptions. I believe
16 actually the current regulations do not place any
17 absolute lower limit on the number of pieces in the
18 sack.

19 Q So therefore if you have four pieces to a
20 five digit zip code, you can create a five digit sack?

21 A I know that's possible.

22 Q What piece rate will apply to those pieces?
23 What pre-sort rate?

24 A Let me make sure I have your question right.
25 He has four pieces --

1 Q Four and only four pieces to a --

2 A He is not qualified for the five digit pre-
3 sort rate.

4 Q Because there aren't enough to make a
5 bundle?

6 A Because there are not six pieces, yes.

7 Q Please look at page 25 of your testimony.
8 In the middle paragraph on page 8 to 24, are you
9 suggesting that the Postal Service will sometimes send
10 a five digit sack to a DDU and then return it back to
11 the plant for processing?

12 A I've heard that happens. They may actually
13 open the sack at the DDU and then send the bundle
14 back.

15 Q They shouldn't be doing that though, should
16 they?

17 A They do that because they want to run as
18 much as possible volume on the AFSM-100.

19 Q Why is the sack taken to the DDU in the
20 first place if it's to be processed at the plant?

21 A It may be that, they may not know what's in
22 it.

23 For example, if these pieces are non-
24 machinable they may decide to, they might process them
25 at the DDU because they don't fit on the machines.

1 But they don't necessarily know that at the time it
2 gets to the ACF.

3 Q You've spent a lot of time in mail plants,
4 have you not?

5 A Some time.

6 Q Have you ever seen hampers that have bundles
7 of standard mail mixed with bundles of periodicals
8 mail?

9 A Up until the time.

10 Q Does it happen less frequently do you
11 suppose with publications like Time or Sports
12 Illustrated that come in on pallets that are cross-
13 docked and shipped to the appropriate plant?

14 A If the pallet comes directly to the SCF it's
15 far less likely to happen than if the bundles were
16 sorted at some upstream facility where they were mixed
17 together with other bundles.

18 In other words, if you have an impact pallet
19 that comes directly to the SCF -- If it's a three
20 digit pallet it might be mixed with other bundles at
21 the SCF and what goes out from the SCF might include
22 both the Time or whatever and other publications, and
23 also standard mail sometimes. Although most
24 facilities will claim that they keep those separate,
25 but they don't in all cases.

1 Q So having a pallet that enters deeper into
2 the system will tend to lessen the opportunity for the
3 Postal Service to inappropriately mix --

4 A The less you let the Postal Service touch it
5 the better off you are, generally.

6 MR. STRAUS: I said an hour, and I'm done.

7 CHAIRMAN OMAS: Thank you, Mr. Straus.

8 Is there anyone else who would like to
9 cross-examine this witness?

10 MR. BERGIN: Yes, Mr. Chairman. I have a
11 few additional questions. I think it would take about
12 20 minutes.

13 CHAIRMAN OMAS: I guess at this point we
14 should go ahead. Proceed.

15 MR. BERGIN: Thank you, Mr. Chairman.

16 BY MR. BERGIN:

17 Q Good afternoon, Mr. Stralberg.

18 A Good afternoon.

19 Q I understand as a general matter you
20 associate the relatively large potential increases
21 under the proposed rates to low sack volume.

22 A In most cases, yes.

23 Q Can I ask you to please look at your Exhibit
24 C, page two? I'm interested in publication number
25 seven which I think you'll find about 25 publications

1 from the bottom.

2 A I see it.

3 Q Publication number seven in the fourth to
4 the last column shows about one bundle per sack.

5 A Yes.

6 Q And about 19 pieces per sack.

7 A That's correct.

8 Q Which would be a relatively low volume sack
9 in your view?

10 A That would be a relatively low volume sack,
11 yes.

12 Q And yet this publication is showing a
13 decrease in rates under the proposed rates.

14 A Yes.

15 Q What is your understanding of why that would
16 be?

17 A I could answer that question if you gave me
18 enough time to check, I could maybe comment some more
19 on -- I don't have my computer up, I don't have all
20 the data here. But there are, and I'm not sure if you
21 really would want me to spend the time researching
22 that. But there are many characteristics of these
23 publications that are not contained in this table.

24 For example, this could be a mixed state
25 sack which just has a limited volume in it.

1 Q Let's focus on some of the factors that are
2 listed on the table. One difference between this
3 publication and some of the other that have high
4 increases under the proposed rates is that this is --

5 CHAIRMAN OMAS: Mr. Bergin, would you bring
6 the mike closer? Thank you.

7 MR. BERGIN: Certainly, Mr. Chairman.

8 BY MR. BERGIN:

9 Q Unlike other publications with high
10 increase, this publication number seven is a large
11 circulation magazine?

12 A Are you suggesting that?

13 Q Isn't that --

14 A It has over 100,000 copies. It has a
15 circulation of over 100,000. It's an ABM publication
16 with circulation over 100,000 which I guess is, that's
17 the definition that Time also used of large.

18 Q Is that a factor that would mitigate the
19 increase for low volume sacks under the proposed
20 rates?

21 A No. I don't think so. I don't think the
22 fact that it's large, over 100,000 in itself, would
23 indicate that it would have a low increase.

24 My theory is that this might be a local
25 publication that's local and therefore would benefit

1 from its own editorial rates.

2 Again, I would have to look at this closer,
3 look at the actual data. There are many
4 characteristics of a publication that's not reflected
5 in this table.

6 I basically picked out here the
7 characteristics that are most relevant for most
8 publications in order to understand their impact, and
9 there are some exceptions.

10 Q If you look at the last two columns, the
11 increase is about the same for this publication
12 whether the editorial pound rate is zoned or not, is
13 that correct?

14 A Yes. So you're right. That is not the
15 whole story, obviously.

16 Q So being a local publication probably is not
17 a likelihood.

18 A It may be low in both cases because it's a
19 local publication and has some other characteristics.

20 Q Notice in the fifth to last column, this is
21 a highly palletized publication. Notwithstanding that
22 it also has some low volume sacks.

23 A Okay, percent of pallets. I'm sorry. I
24 forgot to look at that.

25 You have given me the answer, of course.

1 This is a mostly palletized publication. It has some
2 sacks. Those sacks are low volume which cost a lot
3 but it doesn't impact the overall publication as much
4 because most of the volume is palletized.

5 Q Is it fair to say that a high degree of
6 palletization for a publication on the order of 93
7 percent is your, generally requires a considerably
8 large circulation for the publication?

9 A In this case it's over 100,000. It's less
10 than 350,000 which is the largest example I found
11 among this particular set of publications.

12 Q Isn't it fair to say that generally speaking
13 the larger circulation, higher volume publications
14 tend to do better under the proposed rates than the
15 smaller circulation, smaller volume publications?

16 A Again, absent any significant changes in
17 mailing practices. Your statement is generally true,
18 yes.

19 Q Can I refer you please to page one of your
20 Exhibit C? I'd like to look at a couple of
21 publications. First, number 15 which is about 16 from
22 the bottom.

23 A I'm sorry, I'm looking at --

24 Q Page one of Exhibit C.

25 A And publication number 15?

1 Q Yes.

2 A I found it.

3 Q This publication shows on average about two
4 bundles per sack?

5 A Yes.

6 Q And about 12 pieces per sack?

7 A Yes.

8 Q So this is a low volume sack.

9 A However, each of those pieces weigh 2.8
10 pounds, and so I wouldn't really expect any more sacks
11 that contain much more.

12 Q You're getting a little ahead of me. This
13 is a publication with low volume sacks.

14 A It's a low number of pieces. It has a lot
15 of pounds but not many pieces.

16 Q This is a publication which is entirely
17 sacked, correct?

18 A Yes.

19 Q And all its sacks are low volume.

20 A All its sacks, they have an average of 12
21 pieces, yes.

22 Q Which is low volume in your view.

23 A Yes.

24 Q And this is also a non-machinable
25 publication?

1 A Yes. Because of its weight.

2 Q And the increase under the proposed rate
3 could be about 13 percent?

4 A That is correct.

5 Q Even less if the editorial pound rate
6 remains unzoned.

7 A That's correct.

8 Q Let's compare the very first publication in
9 this chart, number 99. Like publication number 15,
10 publication number 99 at the top also has 12 pieces
11 per sack?

12 A Yes.

13 Q And all its mail is sacked?

14 A Yes.

15 Q It has only one bundle per sack?

16 A Yes.

17 Q And it's machinable?

18 A Yes.

19 Q So you would think that all things being
20 equal it would have an increase no greater than
21 publication 15.

22 A All things are not equal.

23 Q We'll get to that.

24 A It's a fact that there are other differences
25 here. One weighs 2.8 cents per pound, the other

1 weighs 0.114 cents per pound. In other words there is
2 a huge difference between them.

3 Q There's also a huge difference in the rate
4 impact, is there not?

5 A Yes.

6 Q Potential rate impact. Because publication
7 99 would incur a rate increase, assuming no change in
8 mailing practices, of 82 percent whether the editorial
9 pound charge is zoned or not.

10 A Yes.

11 Q Eighty-two percent versus 13 percent for
12 publication 15. And you point out that the difference
13 is that publication 15 is a heavy publication --

14 A That's a difference that can immediately be
15 inferred from this chart. There may be other
16 differences that I would have to look at a more
17 detailed table.

18 Q Can you explain why the heavier weight for
19 publication 15 would make such a difference in the
20 rate impact?

21 A Generally when you have a publication that
22 heavy which is unusual, the pound rate is what
23 dominates in the rate structure. Most of the postage
24 would be in the pound rate because this is a
25 publication that's much heavier than the average

1 publication. So other factors may not make that much,
2 have that much impact.

3 Q Was it fair to state then that generally
4 speaking lighter weight pieces in a low volume sack
5 are more subject to a rate increase under the proposed
6 rates than heavier pieces are?

7 A No, I don't think it's fair to say that
8 because there are many factors that impact how a
9 particular publication would be affected.

10 Q Is that statement true for the two
11 publications we've just looked at with factors spelled
12 out on your Chart C?

13 A Again, based on not at this moment having
14 access to all the information that potentially could
15 be provided about these two publications, I'm
16 suggesting that the difference in pounds, the very
17 large difference in weight is very likely one of the
18 reasons why there is such a different impact.

19 Q Do you think that's likely the main reason?

20 A I don't know.

21 Q I'd like to ask you to look at --

22 A Again, I should point out that there is a
23 library reference that we have provided. It's under
24 protective conditions, but it is possible to look up
25 all of these things. There is much more detail about

1 these publications and their mailing characteristics
2 that can be looked at if someone really wants to find
3 out why is one different from the other. I'm just not
4 looking at all of it right now.

5 Q Would you like to undertake that and provide
6 a written response?

7 A I am willing to do whatever. Well, if the
8 Chairman agrees to that and if the questions are
9 clearly formulated as to why is there such -- I
10 believe what you're asking me is why is the impact on
11 such and such publication different from the impact on
12 such and such publication.

13 Q In your Exhibit C I was comparing
14 publication 15 and publication 99.

15 A If you want me to provide a written thought
16 piece on that --

17 Q I hadn't anticipated that but you seem to be
18 resisting the suggestion that the weight makes the
19 difference and that there could be other factors which
20 would explain the huge difference in --

21 A I might come back and tell you that the
22 weight makes the main difference in this case, but I'm
23 not permitting myself to that conclusion right now.
24 There is very likely other differences in terms of
25 pre-sort levels et cetera, and the proximity to the

1 destination, et cetera, that could also have an impact
2 in this case.

3 MR. BERGIN: Mr. Chairman, I would leave it
4 to you whether you wish to have a written response to
5 my question.

6 CHAIRMAN OMAS: I think you're asking the
7 question.

8 MR. BERGIN: I would be happy to have such a
9 response then, Mr. Stralberg.

10 THE WITNESS: Only about these two
11 publications?

12 MR. BERGIN: Yes, the scope of my question.
13 I thank you for that. Number 99 and number 15.

14 THE WITNESS: And did you also have one on
15 the other page or --

16 MR. BERGIN: That was a different question.
17 Something other than weight.

18 BY MR. BERGIN:

19 Q Page 17 of your testimony, beginning at line
20 five you refer to a publication that only has 48
21 pieces.

22 A I don't know if that's the whole
23 publication. That's the mail.dat file that was
24 provided.

25 Q Fair enough. And you state that it would

1 nevertheless do fairly well under the proposed rates
2 because all of the pieces would be mailed in a single
3 sack.

4 A Correct.

5 Q On footnote 16 you present some of the
6 characteristics of this publication.

7 A Right.

8 Q You state you did not know the advertising
9 percentage of the publication.

10 A Yes.

11 Q Which was true of other publications in the
12 mail.dat file?

13 A There were quite a few examples. I didn't
14 keep the statistics, but there were quite a few
15 examples where the advertising percentage was not
16 provided. So for the purpose of this analysis I
17 assumed 50 percent.

18 Q Is it true, though, that it could make a
19 wide swing in the impact up or down depending upon
20 whether the actual advertising percentage of the
21 publication was substantially higher or lower than 50
22 percent?

23 A It would make a difference, yes.

24 Q In fact this publication could incur a rate
25 increase under the proposed rates.

1 A Under the proposed rates, with zoned
2 editorial rates and all, I believe with zero percent
3 advertising, which I believe is unlikely for an ABM
4 publication, or else you're in even more trouble.

5 If this were a publication with very low
6 advertising and all the other characteristics as
7 specified, then it would incur an increase under the
8 proposed rates.

9 Q Could you look please at your Exhibit C,
10 pages one?

11 The publications are listed according to, in
12 order of the size of the increase they would incur,
13 putting aside any changes in mailing practices under
14 the proposed rates, is that correct?

15 A Actually I ordered them by this alternative
16 set of rates which is the flat editorial rate. That's
17 how I ordered them. In other words, if you look at
18 the last column you will see that the numbers are
19 declining.

20 Generally the numbers in the second to the
21 last column are also declining, but not completely.

22 Q There appears to be in the top 20 magazines
23 listed on this chart in order of degree of impact they
24 would incur, at least under an unzoned pound rate,
25 there appear to be at least 10 of so with exactly 50

1 percent advertising percentage specified?

2 A Yes.

3 Q 50.00 percent actually.

4 A Yes.

5 Q Would these be publications for which you
6 didn't know the actual advertising percentage and you
7 assumed it would be 50 percent?

8 A Actually there were a number of the mail.dat
9 files where exactly 50.00 percent was entered as the
10 advertising percentage by someone else, not me. So
11 whether that means somebody else guessed at it or that
12 it really is exactly 50 percent, I don't know.

13 Q You did mention back in footnote 16 that you
14 had made the 50 percent assumption --

15 A In some case I did make the assumption when
16 it wasn't specified. But there were a number of other
17 cases where it was specified as exactly 50 percent by
18 somebody else.

19 I believe it's not unusual. At the time
20 when the mail.dat file is generated the publisher may
21 not know exactly the percentage of advertising so I
22 believe there are cases where they enter that later or
23 they don't specify it right away. I assume that's
24 what's happened. In other words, 50 percent in many
25 cases was probably a guess. It could have been 55

1 percent or 45 percent.

2 Q And to the extent the numbers are actually
3 higher than 50 percent editorial content, is my
4 understanding correct the rate impact could be more
5 severe?

6 A If a publication has -- That all depends.
7 It could also be less depending on whether it's a
8 local publication or a regional publication or a
9 publication with very wide distribution without drop
10 shipping. If it's a nationally distributed
11 publication that enters all of the mail in one
12 location, at origin, and it has only editorial
13 content, then obviously such a publication would pay
14 more in the zoned editorial rates.

15 On the other hand, if it's a locally or
16 regionally entered publication, chances are with the
17 zoned editorial rates it would pay less. Or if it
18 drop ships extensively then it would pay less.

19 Q But there could be considerable swings in
20 the impact depending on what the actual editorial --

21 A There will be a major incentive for high
22 editorial publications to look for ways to join drop
23 shipping pools.

24 Q You also view machinability in addition to
25 low volume sacks as a major cost driver that underlies

1 Complainant's rate proposal in this case

2 A It is a cost driver, yes.

3 Q But it's not a cost driver for carrier route
4 mail?

5 A No.

6 Q Because carrier route mail is not handled on
7 the --

8 A It is not handled on the sorting machines.

9 Q And carrier route mail comprises about 40
10 percent of all periodicals mailed presently?

11 A I believe for outside county it's about 42
12 percent now.

13 Q Forty-two percent.

14 A The non-profit was a little higher than the
15 regular, and since they merged it's about 42 or 43
16 percent.

17 Q But yet carrier route mail that's machinable
18 would pay a lower rate under the proposed rates?

19 A Say this again.

20 Q If carrier route mail is machinable does it
21 pay a lower rate under the proposed rates?

22 A Than?

23 Q Non-machinable.

24 A Than non-machinable carrier route mail?

25 Q Yes.

1 A No.

2 Q Regarding sack volumes you have advocated,
3 and correct me if I'm wrong, setting minimums at 24
4 pieces per sack rather than six pieces per sack?

5 A I'm not actually advocating any minimum. I
6 think there should not be any minimums. But as far as
7 the way that a publisher runs his fulfillment, the
8 software program that actually creates the instruction
9 for mailing, it's common practice that the way these
10 programs are organized that you set certain minimums,
11 and setting that minimum in the program at 24 pieces
12 tends to produce average sack contents that are
13 considerably higher than that.

14 So if you set a minimum lower, you would get
15 lower volume sacks. I am not advocating regulations
16 that require everyone to use at least 24 pieces per
17 sack.

18 Q You do suggest that --

19 A I'm suggesting that the publishers in order
20 to avoid excessive sack rates, sack charges under the
21 proposed rates, they would probably be wise to set the
22 minimum at 24 pieces.

23 Q If you could turn to your Table B1 please.

24 A Okay.

25 Q I'm looking at the fourth to last column and

1 the last column. The fourth to last column showing
2 sack minimums --

3 A Yes.

4 Q -- for these publications. And the last
5 column showing the rate increase under proposed rates.

6 A Yes.

7 Q I see a number of publications, I count at
8 least seven, with 24 piece sack minimums that incur a
9 double digit increase under the proposed rates.
10 Putting aside any changes in mailing practice.

11 A They do, yes.

12 Q Are you suggesting that a double digit
13 increase is de minimis compared with an 80 percent
14 increase?

15 A I'm not suggesting that at all. Of course
16 anyone would be concerned with a double digit
17 increase.

18 What my testimony points out is that the, I
19 believe in this particular table all the ones, I think
20 there are five or six with a sack minimum of six, and
21 those happen to be the five highest percent increases.
22 In other words I take that as an indication that low
23 sack minimum is a major contributor to the high
24 impact.

25 As to the rest of it, for one thing I did

1 not do this calculation so I don't know how the
2 percentages come about. I don't know what else
3 underlies these numbers in other word. Unlike the
4 calculations I did myself, I can give a little more
5 information about it.

6 But there may be other reasons why these
7 publications would experience double digit increases.
8 It may have to do with the impact of the zoned
9 editorial rates, for example. But I don't know
10 because I don't -- This is all the information that we
11 have about this study that Mr. Bradfield presented.
12 There is no other data beyond this with which to
13 determine exactly what were the other characteristics
14 of these publications that caused these increases.
15 All I could point out was the obvious fact that the
16 sack minimums seem to be causing the highest
17 increases.

18 Q But in some cases even a 24 piece sack
19 minimum --

20 A Combined with other factors.

21 Q -- does not avoid a double digit increase.

22 A Like I said, there are many other factors.

23 Q And just for clarification, when we talk
24 about a potential double digit increase under the
25 proposed rates, if the Commission were to recommend

1 them and the Postal Service were to implement them in
2 the next rate case, we're talking about a double digit
3 increase under the proposed rates on top of whatever
4 increase the Postal Service would propose in the next
5 rate case, correct?

6 A I presume so.

7 Q And that itself could be a double digit
8 increase?

9 A Yes. You are also assuming the Postal
10 Service will propose exactly what we are suggesting
11 which I find unlikely. But yes, that's true.

12 Q There would be additional factors that the
13 Postal Service would consider.

14 A Yes.

15 Q In terms of inflation and so forth. Is that
16 correct?

17 A The Postal Service is likely to ask for a
18 rate increase that would, a fairly large rate
19 increase. That's my understanding.

20 Q Wholly apart from the types of rate
21 structure changes that you're proposing.

22 A Well, the more important to start your plan
23 for any changes that mailers can make in order to
24 reduce the cost of periodicals.

25 Q I'd like to refer to your testimony on page

1 28, please. This should be my last line of inquiry.

2 This section of your testimony discusses the
3 large inordinant increases in periodicals costs over
4 the years, is that fair to say?

5 A Over many years, yes.

6 Q And you make the point, beginning at line 22
7 and carrying over to the next page, that, sort of a
8 thumbnail sketch of your explanation for this
9 anomalous cost increases for periodicals over the
10 years, related to growing automation and increased
11 fixed costs and --

12 A Yeah, and the fact that periodicals were not
13 automated while others were automated.

14 Q But to cut to the chase, my understanding is
15 that your conclusion is that an excessive portion of
16 processing costs may have been misallocated to
17 periodicals mail over the years?

18 A That's what I've argued in the past. Like I
19 said, I might argue it again depending on what the
20 Postal Service files --

21 I should point out, however, that I had a
22 very similar line of questions from Mr. Straus after
23 my direct testimony and I forget whether it was in
24 writing or orally, actually, but as I see it, the
25 costs that the commission allocations to periodicals,

1 those are the costs that periodicals are faced with.
2 Right or wrong. There may be inaccuracies in
3 attribution, but those are the costs that we're faced
4 with and those are the costs that we have to try to
5 minimize.

6 Q Let me ask you a couple of questions about
7 your rebuttal testimony in this regard.

8 First of all, you don't contend that this
9 anomalous increase in costs for periodicals over the
10 years can be attributed to any huge increase in the
11 use of low volume sacks by periodicals?

12 A When I was working with the Postal Service
13 in 1980 they were complaining about skin sacks a lot.

14 Q So it's something that's been around --

15 A So the skin sacks have been around for a
16 long time, yes. At that time they were complaining
17 about standard skin sacks also, I think.

18 Q In fact the number of skin sacks has reduced
19 as palletization has progressed.

20 A I don't know that for sure. I believe that
21 the total number of sacks in the system seems to have,
22 in the periodical sacks, seems to have stayed around a
23 hundred million sacks for a long time. I don't know
24 the full history.

25 You would think that with the increased

1 palletization there would be fewer skin sacks, but I
2 don't have any numbers to support that.

3 Q But in any event, when we're talking about,
4 looking at the anomalous increases in costs attributed
5 to periodicals over the years, skin sacks is not the
6 likely explanation.

7 A If in fact there has been an increase in use
8 of skin sacks, and I have no evidence to conclude
9 that, then it would have been a contributing fact or.
10 But I think it's something that has been around for a
11 long time.

12 Q Is it fair to state that to the extent
13 excessive costs have been, are being misallocated to
14 periodicals mail as you suggest, then in that event,
15 to that extent, periodicals rates cannot be truly cost
16 based?

17 A There are different definitions of cost.

18 Q Okay.

19 A There are different opinions between the
20 Postal Service and the Rate Commission about what the
21 exact costs are, how they should be attributed, and
22 which costs are marginal and so on.

23 Again, I don't think when we're concerned
24 about periodicals rates and how periodical mailers who
25 prepare, I don't think we can get into that too much.

1 I think we have to consider the fact that the costs
2 that we're being presented with by the Rate Commission
3 are the costs that we have to deal with and the costs
4 we have to minimize. So the idea that maybe these are
5 not the real costs is kind of totally irrelevant to
6 the issue of how you set the rates and what kind of
7 changes you try to make.

8 Q Is it irrelevant to how these costs which
9 may be misallocated to periodicals are distributed
10 among the various periodicals mailers, small mailers,
11 large mailers?

12 A It is largely irrelevant to that, yes.

13 Q If these are anomalous costs that have been
14 misallocated to periodicals is that a reason to spread
15 the burden of those costs among the various periodical
16 --

17 A I'm not sure where you're going but I don't
18 think the possibility that these are not real costs
19 should not enter into any consideration. These are
20 the costs that are being charged to periodicals and if
21 you want to deal with those costs then you have to
22 look for ways to prepare the mail better and look for
23 ways to, all possible ways to save periodical costs
24 using consolidators and so on to use your Postal
25 Service resources.

1 These rates are meant to encourage that.

2 Another way to look at it is, it may not be
3 a matter of misallocation. The fact is that the
4 Postal Service has huge fixed costs. Those fixed
5 costs are attributed in proportion to the direct
6 costs.

7 Now if other classes are more automated or
8 more work shared or whatever they incur fewer direct
9 costs so postal periodicals and some other mail
10 classes are left with a higher portion of direct
11 costs, therefore asked to bear a higher burden of the
12 fixed costs. That doesn't mean those costs don't
13 exist. It means that the periodicals mailers ought to
14 look for ways that they also can reduce their direct
15 costs and to look for a rate structure that would
16 help, would give the right incentive.

17 MR. BERGIN: I have nothing further, Mr.
18 Chairman.

19 CHAIRMAN OMAS: Thank you, Mr. Bergin.

20 MR. STRAUS: Mr. Chairman, I have one
21 question that was raised by Mr. Bergin's cross.

22 CHAIRMAN OMAS: I was going to ask if anyone
23 wanted to follow up.

24 BY MR. STRAUS:

25 Q Mr. Stralberg, you said that you would

1 recommend, that faced with these rates you would
2 certainly recommend that a mailer set a 24 piece sack
3 minimum. Why wouldn't you recommend 100 pieces?

4 A Again, there is a tradeoff, and I'm not sure
5 what the best tradeoff would be.

6 If you use, for one thing, even though there
7 are no minimums, there don't really need to be
8 minimums. The Postal Service has to use certain
9 maximums. There are limits to how heavy a sack can
10 be. In other words, people cannot safely lift very
11 heavy sacks.

12 It's also a fact that if you increase the
13 number of pieces per sack then generally you would
14 reduce your presort level. So people may -- Right now
15 the incentives are to use low volume sacks because
16 there's no penalty for it. But if you put too many
17 pieces in a sack then you would certainly save on sack
18 costs but you would pay more in piece costs or bundle
19 costs because they would be less pre-sorted.

20 So there would be a tradeoff, in other
21 words.

22 Q I was under the impression that if you have
23 the five digit bundle in, the piece charge is going to
24 be a five digit piece charge irrespective of the sack
25 level, isn't that right?

1 A For automation pieces that is true right
2 now. I'm also suggesting in my direct testimony that
3 there is a disconnect between the rules for sacks and
4 pallets in that regard.

5 Under the proposed rates there would be, the
6 charges would be based on the pre-sort level of the
7 pieces, the pre-sort levels of the bundles and the
8 pre-sort levels on the sacks. So in other words you
9 would pay more for lower levels of pre-sorts.

10 Q If a mailer ran the numbers and found out
11 that by setting a 100 piece sack minimum, and of
12 course there would be the 70 pound maximum imposed,
13 but if a mailer found out that its postage costs would
14 be lower with a 100 piece minimum than with a 24
15 piece minimum, would there be any reason you wouldn't
16 move to a 100 piece minimum, or shouldn't move?

17 A No, not necessarily. I guess each mailer
18 would make different decisions. It depends also which
19 pre-sort levels you're talking about.

20 But in general if you have 100 pieces, for
21 example. Let's say your mailing is 100 pieces and
22 they are not too heavy so you could put all of them in
23 one mixed state sack, that might actually be the low
24 cost alternative for that particular mailing.

25 Q My question was would there be any other

1 considerations before the mailer decided that's my
2 lowest cost, that's the way I'll do it. Should the
3 mailer be concerned about service, for example, in a
4 mixed state sack?

5 A Again, like I've pointed out before, I don't
6 think there really is a service penalty for mixed
7 state bags compared with ADC sacks. Mail in ADC sacks
8 would have to travel through an ADC which the mail in
9 the mixed state sacks could often bypass. In other
10 words the mail in the mixed state sacks might in some
11 cases do better in terms of service.

12 CHAIRMAN OMAS: Thank you.

13 Are there any questions from the bench?
14 Commissioner Goldway?

15 COMMISSIONER GOLDWAY: I wanted to ask you
16 as well about my concerns about the smallest of the
17 periodical mailers because your testimony here today I
18 think focuses on what were called small mailers but
19 are in fact medium sized mailers.

20 Do you have any information on the smallest
21 mailers?

22 THE WITNESS: First of all, there were two
23 testimonies represented in this case by NNA, by the
24 National Newspaper Association, and they described
25 small local newspapers which I believe include the

1 very smallest mailings which generally are entered not
2 at an ACF but at a local post office.

3 COMMISSIONER GOLDWAY: Do you believe those
4 are included in that 25,000 list? The --

5 THE WITNESS: Yes, I'm positive they are
6 included. I think NNA could probably provide some
7 information about how many members they have and how
8 many small newspapers they have. There may have been
9 something about that in Mr. Heath's [ph] testimony,
10 I'm not sure.

11 In my testimony I have one section where I
12 try to address the possible impacts on a particular
13 small newspaper which is the one that Mr. Cruz
14 described and with some interrogatories and got lots
15 of details about how this particular small newspaper
16 is entered. I think it became pretty clear from those
17 interrogatories that there are in fact things that
18 that particular newspaper could do, and again it
19 relates to using fewer sacks. They were using an
20 unnecessarily large number of sacks, many of them
21 containing only a few pieces each. Even in Mr. Tang's
22 database or in the ABM database. We don't really find
23 examples of sacks with two or three pieces, but in the
24 information that Mr. Cruz provided you do find that.

25 I believe, and my testimony concludes

1 basically that, and I'm focusing on the pieces that
2 they mailed to distance locations which would be the
3 ones that would be the most affected generally by the
4 rates, and by proper use of sacks they would, and
5 depending on certain other assumptions, they would
6 either have an increase in the 12 or 15 percent range
7 or a small decrease, whereas without any changes, if
8 they continue to use as many facts as they do, they
9 would have a very large increase.

10 So they are in a way an example of someone
11 whose mailing practice could change. It seems to be a
12 very typical example where there is a belief that if
13 you just fill up many small sacks somehow it will get
14 there faster; whereas the Postal Service is much
15 better at sorting bundles and sorting pieces than they
16 are at sorting sacks. They have automated their
17 piece-sorting operations to a very large extent and
18 they are also now increasingly automating their bundle
19 sorting operations.

20 COMMISSIONER GOLDWAY: But in that example
21 those are newspapers which I think are rolled, so it's
22 not --

23 THE WITNESS: No, they are not rolled. I
24 believe they are, they might be, something like this
25 might be a typical newspaper, or it might be a full

1 size paper that's folded --

2 COMMISSIONER GOLDWAY: I don't think it was
3 clear in the testimony and that's one of my concerns,
4 is that they wouldn't necessarily, that they'd need to
5 be in small sacks because the Postal Service is not
6 necessarily efficient at sorting that configuration of
7 magazines.

8 THE WITNESS: Generally --

9 COMMISSIONER GOLDWAY: Periodicals.

10 THE WITNESS: Generally newspapers are
11 considered non-machinable. This is the problem and
12 it's going to be more of a problem if they go through
13 an automation of --

14 COMMISSIONER GOLDWAY: So --

15 THE WITNESS: One way a newspaper could
16 become machinable is to put a paper sleeve around it
17 so that you have something -- If you put a sleeve of
18 paper around it then it would be machinable.

19 COMMISSIONER GOLDWAY: That might be --

20 THE WITNESS: But again, nobody likes to
21 make changes.

22 COMMISSIONER GOLDWAY: And that might be an
23 additional cost or it may change the impact of --

24 THE WITNESS: Sure.

25 COMMISSIONER GOLDWAY: -- message. But your

1 thinking is that many of these 25,000 are in fact
2 small and regional newspapers.

3 THE WITNESS: That is one category.

4 COMMISSIONER GOLDWAY: Do you have any other
5 suggestions for us as to how we can find out more
6 about those 25,000?

7 THE WITNESS: We asked Ms. Tang a lot of
8 questions about her sample of publications which was
9 first 55, then it was expanded to 250 because the
10 Commission asked for more. We asked for more
11 information about that. They provided a fairly
12 substantial database in a large spreadsheet.

13 I took, for the 100 publications that they
14 had samples which they called small publications, and
15 she divided them further into low density small
16 publications and high density small publications. I
17 think generally the high density small publications
18 would be local publications. If they're small and are
19 high density, that generally means they are entered in
20 the local area.

21 We asked some questions, and if they're low
22 density then it is more likely they have national
23 distribution.

24 In my tables here, Example A, Tables A1 and
25 A2, you can see for example the editorial content.

1 There are indeed a fairly large number of them that
2 have 100 percent editorial content and some that have
3 much less than that. And the impact on those
4 publications varies. Again, here also, I found a very
5 direct relationship between the use of low volume
6 sacks and the increase that these publications would
7 experience.

8 COMMISSIONER GOLDWAY: But if it's a low
9 density high editorial, then it's the editorial rates
10 that are going to make a big difference.

11 THE WITNESS: If it's a fairly heavy
12 publication so that the pound rates dominate, and if
13 it's entered in one location, and if it is 100 percent
14 editorial, then they would be severely impacted by
15 this unless they can find a way to be drop shipped.

16 One of the things, and I don't know whether
17 all publications would be able to hitch onto this, but
18 one of the things that has been happening in recent
19 years is there have been more and more opportunities
20 for many publications to participate in various types
21 of drop shipping pools so that now for example almost
22 all of Time Warner's publications participate in drop
23 shipping pools, which they couldn't arrange by
24 themselves, but the printers provide it or some
25 consolidators.

1 And also the Postal Service data reflects
2 that, that there is a lot more drop shipping going on.

3 The publications with high editorial content
4 are sort of left out of it. You could look at this two
5 ways. You can say well, if they don't do anything
6 then they will have a terrible impact. You can also
7 look at it if there were so many editorial rates, many
8 of them would have an opportunity that they now don't
9 in order to participate in drop shipping.

10 COMMISSIONER GOLDWAY: But if they're really
11 small volume, if we're talking about 5,000 copies --

12 THE WITNESS: If you're talking about really
13 small volume, I agree, that there's a lot of things
14 that are not known about the really small
15 publications. I think you could actually ask Ms. Tang
16 for more data than that particular information that we
17 asked for. I think she has information about how many
18 of them are non-profit and so on, how many are
19 classroom. So I think some additional characteristics
20 could be obtained. We asked for certain things that
21 were directly relevant to their mailing efficiency.
22 We didn't ask for other things.

23 COMMISSIONER GOLDWAY: Thank you for those
24 comments.

25 MR. KEEGAN: Commissioner, I just wanted to

1 point out for the record that a list of NNA membership
2 is on file in this case. It's NNA library reference
3 number one.

4 CHAIRMAN OMAS: Thank you, Mr. Keegan.

5 Mr. Keegan, would you like some time with
6 your witness?

7 MR. KEEGAN: I think five minutes, Mr.
8 Chairman.

9 CHAIRMAN OMAS: Great.

10 MR. KEEGAN: Thank you, Mr. Chairman. I
11 have just one very short line of follow-up.

12 CHAIRMAN OMAS: Okay.

13 REDIRECT EXAMINATION

14 BY MR. KEEGAN:

15 Q Mr. Stralberg, it is the case, is it not
16 that the rates proposed in this proceeding would not
17 overall constitute an increase in the rate on
18 editorial pounds?

19 A No, the overall, the average rate on
20 editorial pounds will be the same.

21 Q Therefore if you are looking at editorial
22 pounds in the lower zones those pounds would
23 experience a decrease in postage under the --

24 A Other factors being equal, yes.

25 MR. KEEGAN: That's all I have, Mr.

1 Chairman.

2 CHAIRMAN OMAS: Thank you, sir.

3 Mr. Stralberg, without any further questions
4 that completes your testimony here today. We
5 appreciate your appearance and your contribution to
6 our record. You are now excused.

7 THE WITNESS: Thank you.

8 (Whereupon, the witness was excused)

9 CHAIRMAN OMAS: This concludes hearings in
10 this case. Oh, wait just a minute. I apologize.

11 Ms. Rush?

12 MS. RUSH: Tanda Rush with National
13 Newspaper Association. A person of small voice this
14 morning, I'm sorry. I'll try to be heard.

15 Several questions have been raised by the
16 Commissioners today about National Newspaper
17 Association. I just wanted to offer that there
18 possibly could be some data NNA could provide on
19 request from the Commission that might address some of
20 these questions. I've checked with the membership
21 director -- NNA does keep track of its membership by
22 circulation, both the paid circulation and also the
23 free circulation, which would enable the Commission to
24 determine which were the likely periodical permit
25 holders.

1 It would surprise me if the Postal Service
2 is able to respond to many of the questions that I've
3 heard Commissioner Goldway raise. NNA has asked some
4 of these questions in previous dockets, for example,
5 what percentage of periodical holders are newspapers?
6 And have been told that the Postal Service doesn't
7 keep that data.

8 So I don't know how helpful we can be, but
9 it would at least provide you some enlightenment on
10 2500 likely periodical permit holders and we're happy
11 to try to get any data the Commission might like to
12 see.

13 CHAIRMAN OMAS: Would you repeat that
14 number, how many?

15 MS. RUSH: It's about 2500.

16 CHAIRMAN OMAS: Okay. We really appreciate
17 your offer and we will take you up on that.

18 If there's nothing else from anyone else
19 this concludes the hearings in this case.

20 I remind everyone that briefs are due
21 December the 6th and reply briefs are due December the
22 16th.

23 I want to thank you and thank everyone here
24 today.

25 Mr. Straus?

1 MR. STRAUS: As I understand it the Postal
2 Service will be submitting data in two weeks. That's
3 14 days out of the 20 days due for briefs. Are those
4 data going to be questioned, examined, simply admitted
5 into the record without anybody having an opportunity
6 to ask any questions?

7 I'm concerned that we now have two pieces of
8 data, two sets of data coming into the record, being
9 submitted six days before the briefs are filed. I
10 don't know if that information is going to be in the
11 evidentiary record or not going to be. I suggest that
12 if it's not then it may not be very useful to you. If
13 it is, then I suggest the Commission consider some
14 procedures for determining whether it will be admitted
15 into the record, whether it will be subject to
16 examination and questioning by the parties, and if so,
17 whether the briefing schedule can be sustained with 20
18 days for a brief and information being submitted in 14
19 days.

20 CHAIRMAN OMAS: Do you have any comment on
21 the briefing schedule?

22 MR. STRAUS: Do I?

23 CHAIRMAN OMAS: Yes.

24 MR. STRAUS: I don't want to file a brief
25 six days after data are first revealed and maybe

1 before they're admitted into the record. I mean I
2 don't know what your intentions are with respect to
3 the data --

4 CHAIRMAN OMAS: I think our intention was to
5 admit this into the record. I guess that would have
6 to -- I'm looking at my counsel while I'm saying this.
7 I would imagine we can extend it one week. Could we
8 extend the brief periods --

9 MR. STRAUS: I think he nodded yes.

10 CHAIRMAN OMAS: Yes, okay, therefore we will
11 extend, that will be, rather than December the 6th
12 we'll extend everything by a week.

13 The 13th of December and 23rd. Therefore
14 the new dates will be December the 13th for the
15 briefs, and the reply briefs will be due December
16 23rd.

17 MR. STRAUS: I don't believe I will have any
18 cause to raise a procedural concern when the data are
19 submitted, but I do believe that due process would
20 require that the parties not simply be exposed to data
21 coming into the record without the opportunity to
22 examine it or to ask questions about it, so --

23 CHAIRMAN OMAS: I'll take that under
24 advisement.

25 MR. STRAUS: Thank you.

1 CHAIRMAN OMAS: Does anyone else have
2 anything else to contribute?

3 (No response.)

4 CHAIRMAN OMAS: If not, this hearing in this
5 case again has concluded, and the new dates for the
6 briefs are December the 13th and the reply briefs are
7 due December 23rd.

8 Thank you for being here today and your
9 contribution, and we are now adjourned.

10 (Whereupon at 2:06 p.m. the hearing was
11 adjourned.)

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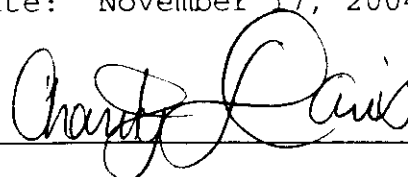
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REPORTER'S CERTIFICATE

DOCKET NO.: C2004-1
CASE TITLE: Complaint of Time Warner, Inc., et al.
HEARING DATE: November 17, 2004
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: November 17, 2004

A handwritten signature in cursive script, reading "Charity Davis", is written over a horizontal line.

Charity Davis
Official Reporter
Heritage Reporting Corporation
Suite 600
1220 L Street, N.W.
Washington, D.C. 20005-4018

Heritage Reporting Corporation
(202) 628-4888

